



Independent Pricing and Regulatory Tribunal

2008 Review of Taxi Fares in NSW

Transport — Draft Report and Draft Recommendations
April 2008



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Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

Submissions are due by 16 May 2008.

We would prefer to receive them by email <ipart@ipart.nsw.gov.au>.

You can also send comments by fax to (02) 9290 2061, or by mail to:

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We may choose not to publish a submission – for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. IPART will then make every effort to protect that information, but it could be subject to appeal under freedom of information legislation.

If you would like further information on making a submission, IPART's submission policy is available on our website.

Contents

Invitation for submissions	iii
1 Introduction and overview	1
1.1 Overview of draft decisions	1
1.2 Overview of draft recommendations and matters on which IPART seeks further comment	2
1.3 Review process	4
1.4 Structure of this report	4
2 IPART's role and approach	6
2.1 IPART's role in the NSW taxi industry	6
2.2 How taxi fares in NSW are determined	7
2.3 Why IPART uses a cost index to formulate its recommendations	7
2.4 Concerns raised in submissions outside the scope of the review	10
3 The cost items in the taxi cost index and their weightings	13
3.1 IPART's draft decisions on cost items and weightings	13
3.2 Changes to cost items in the taxi cost index	14
3.3 Revised weightings in the taxi cost index	16
4 Inflaters for the cost items in the taxi cost index	34
4.1 IPART's draft decisions	34
4.2 Notional drivers' labour costs	35
4.3 LPG fuel	38
4.4 Other drivers' costs	39
4.5 Operators' salary equivalent	39
4.6 Maintenance costs	40
4.7 Plate lease costs	40
4.8 Insurance	42
4.9 Vehicle lease payments	42
4.10 Network fees	43
4.11 Other operators' costs	43
5 Required average increase in fares and approach for applying this increase to fare components	44
5.1 IPART's draft decisions	44
5.2 The overall change in costs measured by the TCI	45

5.3	Average increase in fares required to recover overall increase in costs	46
5.4	Method for applying required average fare increase to fare components	47
5.5	Definition of the 'average fare'	48
6	Draft recommendations on fare components	54
6.1	IPART's draft decisions and draft recommendations	54
6.2	IPART's considerations and analysis	55
6.3	Impact of the fare increases on stakeholders	61
7	Level of fares compared with costs	66
7.1	IPART's draft finding	66
7.2	Stakeholders' views on revenue received	66
7.3	Available data on costs and revenues	67
7.4	Comparison of costs and revenue for a typical urban taxi using IPART's assumptions for 2007/08	68
7.5	Comparison of costs and revenue for a typical urban taxi using the full range of revenue estimates available	70
7.6	Comparison with fares in other states	73
8	Measures to address volatility in LPG fuel costs	75
8.1	IPART's draft findings and recommendations	75
8.2	How LPG prices move and what drives them	76
8.3	The need for additional measures to address the impact of changes in the LPG price	77
8.4	Options for addressing the impact of changes in the LPG price	78
9	Premium taxi services	83
9.1	IPART's draft findings and recommendations	83
9.2	Stakeholder views	84
9.3	What happens in other states?	86
9.4	IPART's preferred approach for introducing premium booking fee for NSW	86
10	Wheelchair accessible taxis	90
10.1	IPART's draft decision	91
10.2	Costs associated with WATs that are not already recovered	91
10.3	Level of service for WATs	92
10.4	The need for additional incentives	92
10.5	Other issues related to WATs and transport for passengers with physical disabilities	93
	Appendices	97
A	Terms of Reference	99
B	Productivity growth in the economy	100
C	Service standards and KPIs	102
D	Monthly changes in LPG prices	106

1 Introduction and overview

The Independent Pricing and Regulatory Tribunal of NSW (IPART) has a standing reference to investigate and report on prices for taxi services in NSW. IPART reviews taxi fares annually and recommends changes to maximum taxi fares to the Minister for Transport.

IPART is currently undertaking its 2008 review, and has made its draft recommendations on changes to maximum taxi fares in NSW from 1 July 2008. These draft recommendations have been informed by the results of a recent industry survey by PricewaterhouseCoopers (PwC), and submissions in response to PwC's report on the survey and IPART's Issues Paper released in February of this year.

This draft report explains IPART's draft decisions and recommendations. IPART is now seeking comment from interested parties before making its final recommendations.

1.1 Overview of draft decisions

IPART's draft decision is that, on average, current taxi fares need to increase by the following percentages at 1 July 2008:

- ▼ 3.8 per cent for urban taxis
- ▼ 3.2 per cent for country taxis.

These required average increases reflect the estimated increase in the costs involved in providing taxi services over the past year as measured by the Taxi Cost Index, after adjusting for productivity gains and for the fact that last year's fare increases occurred in late August 2007 (at a higher value than if they had been implemented at 1 July).

In determining how these required average increases should be translated into changes in fare components, IPART has made draft decisions to:

- ▼ recommend the removal of the luggage fee
- ▼ recommend an increase in the booking fee of 25 per cent
- ▼ recommend that the other components be increased roughly in line with the required average increase, to largely retain the current relativities between fare components

- ▼ recommend that taxis no longer be entitled to charge passengers the return-trip toll on northbound crossings of Sydney Harbour
- ▼ not to recommend the introduction of a charge for the use of children's car seats
- ▼ not to recommend an extension of the hours of the night time surcharge
- ▼ to seek comment on whether there is a case for an additional surcharge for taxis that are required to carry a large volume of goods, and the appropriate proportion of total trips for which the night time and holiday surcharges apply.

IPART's draft decisions on changes in fare components would mean that the 'average fare' would increase to \$20.83 in urban areas, and \$16.44 in country areas.

IPART has also considered a range of other issues raised by stakeholders, including whether additional measures are needed to compensate drivers for the volatility in LPG fuel costs; whether premium taxi services should be able to charge higher fares to compensate for the higher costs involved in providing a higher quality of service than standard taxis; and whether additional measures are needed to address the additional costs associated with wheelchair accessible taxis. IPART's draft decisions on these issues are:

- ▼ That additional measures to compensate drivers for the volatility in LPG fuel costs are needed, and that the appropriate approach is for IPART to undertake an additional limited review of LPG fuel costs in October each year. If fuel costs for the 6 months to September have varied by more than 10 per cent (up or down) then IPART would recommend that the distance-based component of fares be adjusted by the change in the fuel costs. If average fuel costs have changed by less than 10 per cent then there would be no fare change.
- ▼ That booking fees for premium taxi services should be deregulated on a trial basis.
- ▼ Not to recommend making an allowance for a WAT incentive payment at this stage. IPART may reconsider the introduction of a fare funded incentive payment once the results of the Ministry of Transport's current six-month trial incentive payment are available.

1.2 Overview of draft recommendations and matters on which IPART seeks further comment

Draft recommendations

- 1 That maximum fares for taxis in urban and country areas should consist of the components and values shown on Table 6.1.
- 2 That taxis should no longer be entitled to charge a luggage fee.
- 3 That taxis should no longer be entitled to charge passengers the return-trip toll on northbound crossings of Sydney Harbour.

- 4 In addition to the annual review process, that IPART should undertake a limited review of LPG fuel costs in October each year.

In the event that these costs have changed by 10 per cent or more (up or down), that IPART should recommend to the Minister that:

- maximum taxi fares should be adjusted to reflect the change in the fuel component of the taxi cost index, and this change should be equal to the average change in the price of LPG (as recorded by Fueltrac) for the 6 months to September
- no changes should be made to the components of the taxi cost index other than for LPG fuel
- only the distance-based component of taxi fares should be adjusted.

That the limited review of fuel LPG fuel should be conducted by 30 October and any fare change should be implemented by mid November (subject to how quickly meters and stickers can be updated).

- 5 That premium taxis should be able to charge an unregulated booking fee for a trial period of 12 months, subject to the following conditions:
- The unregulated booking fee should apply only to those passengers that specifically request a premium service.
 - Networks must provide standard services at the regulated booking fee and must notify customers of this at the time the booking is made.
 - Networks must disclose the premium booking fee that will apply and the service provided for that fee to the customer at the time of booking.
 - Premium taxis must display the booking fee inside the taxi.
 - The unregulated booking fee should apply only to pre-booked premium taxis. Fares for all taxis hired at a rank or hailed in the street (including premium taxis) would be subject to the regulated maximum fares determined by the Minister.

That an appropriate monitoring regime should be implemented and that IPART should review and publicly report on the outcome of the 12-month trial.

IPART seeks comments on the following:

- 1 For the purpose of defining an 'average fare', IPART seeks comment on the percentage of paid trips that are made at times when the night time and holiday surcharges apply.
- 2 Whether taxis should be entitled to apply a surcharge on the standard fare for hirings that primarily involve the transportation of goods, and if so, what is the appropriate level for this surcharge, and in what circumstances should it apply.

1.3 Review process

IPART seeks stakeholder comments on its draft decisions and recommendations, and the specific issues identified above. It will consider submissions and update the cost information used in the TCI calculation before finalising its recommendations in June 2008.

The indicative timetable for finalising the review is set out in Table 1.1 below.

Table 1.1 Indicative review timetable

Action	Date
Release draft report	April-08
Submissions due on draft report	16-May-08
Release final report	Mid-Jun-08
Implement fare change	1-Jul-08

1.4 Structure of this report

This report explains IPART's review, draft decisions and draft recommendations in detail. The report is structured as follows:

- ▼ Chapter 2 discusses IPART's role in relation to taxi regulation and its approach to the 2008 fare review, including an explanation of the Taxi Cost Index used to calculate fare recommendations
- ▼ Chapter 3 sets out the cost items in the Taxi Cost Index and a revised weighting for each cost item
- ▼ Chapter 4 sets out the inflators used to measure the changes in costs for each item in the Taxi Cost Index
- ▼ Chapter 5 outlines IPART's draft findings on the required average increase in fares to recover the costs measured by the Taxi Cost Index, and the approach IPART has used to apply this increase to the fare components
- ▼ Chapter 6 sets out IPART's draft recommendations on the fare components, and discusses its draft decisions on the additional components and other changes requested by stakeholders
- ▼ Chapter 7 compares the level of costs of providing typical taxi services with the available information on revenue from a typical taxi, in order to determine whether fares are currently at a level that recovers the cost of providing taxi services
- ▼ Chapter 8 discusses methods for addressing the impact of LPG price volatility on taxi drivers and explains IPART's draft recommendation for dealing with this issue

- ▼ Chapter 9 sets out IPART's draft recommendation to deregulate booking fees for premium taxi services and provides reasons for this recommendation
- ▼ Chapter 10 discusses issues considered by IPART in relation to wheelchair accessible taxis.

2 | IPART's role and approach

IPART has been responsible for recommending annual increases to maximum taxi fares since 2001.

The sections below explain IPART's role in the NSW taxi industry, and provide an overview of the cost index method IPART uses to determine its recommended fares and the reasons for using this method.

The final section discusses some of the issues raised by stakeholders that are outside the scope of IPART's fare review, but nevertheless are legitimate concerns that IPART considers warrant further consideration.

2.1 IPART's role in the NSW taxi industry

Currently, IPART makes recommendations on maximum fares for taxi services in NSW to the Minister for Transport. After considering IPART's recommendations, the Minister decides on the maximum fares that will apply.

The input costs and returns within the industry are affected by a number of factors, including:

- ▼ Regulatory control of fares (recommended by IPART and set by the Minister).
- ▼ Regulatory control of the 'pay-in', which is the payment made by non-owner or non-operator drivers to the operator of the vehicle. The maximum level of this payment is set by the NSW Industrial Relations Commission (IRC) for urban taxis.
- ▼ Regulatory control of taxi licence costs, which are set by the Ministry of Transport, and other regulations regarding behaviour and service standards.
- ▼ The market power of industry participants, which can affect certain price inputs.

IPART's role in the industry is to ensure that the maximum taxi fare it recommends is set at a level that reflects the cost of providing taxi services to passengers. IPART has no role in setting the returns available to the different industry participants (eg, drivers and operators).

2.2 How taxi fares in NSW are determined

IPART uses a cost index that is specific to the taxi industry called the Taxi Cost Index (TCI) to calculate its recommendations. The TCI consists of a basket of taxi cost items weighted according to their proportion of overall costs. Each year, each cost item is changed by an 'inflater'. These inflators are based on data from a mixture of publicly available and industry sources. Both the weightings of cost items in the TCI and the values of the inflators influence IPART's fare recommendations. See Box 2.1 for more information.

Box 2.1 How changes to the Taxi Cost Index (TCI) are calculated

To calculate the annual change in the TCI, IPART takes the current weighting of each cost item and multiplies it by the relevant cost inflater (expressed as a percentage). This gives the contribution of each cost item to the TCI. IPART then sums the contributions for each of the cost items to give the percentage change in the TCI.

The table below shows the change in the urban TCI for 2007 (5.9 per cent) as an example:

	Weighting	Inflater	Contribution to TCI
	%	%	% point
People costs	49.67	3.8	1.9
Plate costs	14.17	19.6	2.9
Fuel costs	8.35	5.1	0.4
Insurance costs	6.22	3.5	0.2
Vehicle parts costs	5.20	3.3	0.2
Vehicle lease costs	4.79	0.2	0.0
Network fees	3.41	1.8	0.1
Other	8.19	3.2	0.3
Total	100	-	5.9

Note: Figures above have been rounded.

Source: IPART, *Maximum fares for taxis in NSW for 2007/08*, July 2007, p 15.

There are separate TCIs for urban and country taxis. In general, these indices include the same cost items, but with different weightings reflecting differences in the cost structure between urban and country taxis.

2.3 Why IPART uses a cost index to formulate its recommendations

In 2006, IPART reviewed the approach it uses to regulate taxi fares and sought views from stakeholders on this approach. IPART decided to continue to use the TCI, but to ensure that the inflators it uses are based on independent and verifiable information as far as possible. It also decided to include a productivity adjustment, and to use the planned survey of industry costs to revise the weightings in the TCI to

ensure they accurately reflect current costs. The survey of costs was not completed in time for the 2007 review, so this year (2008) is the first year in which the results of the survey can be considered.

IPART's approach to regulating taxi fares is consistent with the approaches used in other states of Australia. All Australian regulators use some form of index to determine taxi fare increases. There are different types of cost indices that could be used including:

- ▼ industry specific cost indices - used in NSW, ACT, Qld, SA, NT
- ▼ economic indices (based on an ABS inflator, such as CPI) - used in Vic, WA
- ▼ composite indices (based on weighting different ABS-type inflators).

One reason that an index approach is favoured for regulating the taxi industry is the industry structure. The taxi industry comprises several layers of market participants, each with varying levels of market power and vulnerability to taxi fare outcomes. The layers include:

- ▼ licence owners, who are either owner-drivers or lease their plates to taxi companies or individual operators
- ▼ taxi companies (and co-operatives), who sell bundled services such as insurance and repairs to operators, but who may also manage licence plates and operate taxi businesses
- ▼ operators, who can be owner-drivers, individuals leasing a plate and operating a vehicle, or companies that manage multiple licences, vehicles and drivers
- ▼ networks, which are taxi companies that also provide phone booking, dispatch and safety services (eg, silent alarms) to their members and to other taxi companies
- ▼ drivers, who either drive their own vehicle as an operator, or contract their services to operators (termed 'bailee drivers').

In the first instance, drivers collect all fare revenue. Depending on their terms of employment, they then pay a fee or proportion of their fare revenue to operators. Out of the payments they receive from drivers, operators pay the remaining industry participants (networks, taxi companies and licence owners). (See Box 2.2 for more information.) This type of industry structure lends itself to an index-based approach rather than the more traditional 'building block' approach that is applied in most other regulated industries.

Box 2.2 Participants in the NSW taxi industry**Taxi licence owners**

Taxi licence or 'plate' owners own a taxi licence plate purchased either from the Ministry of Transport (MoT) or on the secondary market. Currently, unrestricted Sydney taxi licences are valued at around \$372,000 (March 2008), while the value of plates in country areas varies from as little as \$40,000 to more than \$400,000 depending on the operating area. There are approximately 6,400 taxi plates in NSW, which are owned by around 4,500 licence owners. All licence owners must be licensed by the MoT. Many licence owners do not operate a taxi themselves, but enter into a plate lease arrangement with a taxi operator.

Taxi operators

There are around 5,500 taxi operators in NSW, which operate anywhere from one to more than 100 taxis each. All taxi operators must be accredited by the MoT after undergoing training. While some operators drive the taxis they operate, many bail out their taxis to bailee drivers. In the Sydney metropolitan area, bailee drivers can choose whether to pay a bailment fee (or pay-in) to the operator for use of the taxi or to share revenue with the operator under a commission arrangement. The majority of drivers in Sydney choose the pay-in method. The Industrial Relations Commission sets a maximum pay-in amount per shift and the commission rates. Under the pay-in arrangement, bailee drivers also have to pay for the costs of fuel used during their shift, and of cleaning the taxi after their shift. In return, they get to keep the remaining revenue they earn during that shift. The taxi operator is responsible for meeting all other costs of running the taxi (ie, all except for fuel and cleaning costs). Under the commission arrangement, the operator pays for fuel and wash costs. In country NSW, taxi drivers typically operate on a 50-50 commission arrangement where the operator and driver each retain 50 per cent of the takings. Under this arrangement, the taxi operator pays for all the costs of running the taxi, including fuel and cleaning costs.

Taxi networks

Under MoT regulations, all taxi operators must be affiliated with a MoT authorised taxi network. The networks provide a radio booking service and a GPS tracking and alarm monitoring service, and a lost property service. There are currently 12 taxi networks in Sydney.

Taxi drivers

There are 23,000 drivers authorised by the MoT in NSW. Some drivers drive a taxi they either own and/or operate while others serve as bailee drivers. In obtaining MoT authorisation, drivers must complete compulsory training courses, pass English proficiency assessment and locality knowledge tests in the metropolitan areas.

2.4 Concerns raised in submissions outside the scope of the review

In their submissions to the 2008 review of taxi fares, and at the public hearing, some stakeholders (particularly drivers) were critical of IPART's approach to setting fares and the PwC survey. While many of the criticisms, particularly those provided by the NSW Taxi Council, related specifically to the fare setting process, a number of the concerns raised by drivers are outside the scope of IPART's review.

The Australian Taxi Drivers' Association (ATDA) submission put the view that the taxi cost model that underlies the TCI used by IPART in recommending maximum fares is inconsistent with what happens in practice. For example, it pointed out that drivers do not receive a \$20 per hour wage or leave entitlements. The submission also raised many issues regarding the findings of the PwC survey on costs, operating practices (such as the number of shifts taxis do per day) and the overall level of fares in relation to costs. The submission called for a cross-check of the costs (which it says are 'now about right') with fare revenue, and suggested that the fares set need to be adjusted if they are to deliver the hourly 'notional wage' to drivers and allow them to recover their costs.

The NSW Taxi Drivers' Association (NSWTDA) also focused on the issue of drivers not receiving the notional wage allowed for in the TCI, and not receiving entitlements, and claimed that the cost model underlying the TCI is not consistent with what happens in practice. It also submitted that drivers are not adequately compensated for the risk they bear under the bailment system.¹ At the public hearing, the NSWTDA requested a more fundamental 'bottom up' approach to reviewing fares.

IPART considers that many of the concerns raised by the drivers cannot be addressed as part of a fare review, as they relate to the market power of various elements of the industry and other regulatory processes, such as the conditions of remuneration and entitlements established by the Industrial Relations Commission for taxi drivers in Sydney.

Although submissions were critical of the TCI, IPART considers that adopting an alternative form of regulation is unlikely to resolve these issues. IPART acknowledges that for a number of years there has been concern that the balance between operator costs and driver costs is incorrect. This issue has been partly addressed in this review, through the re-weighting of the index. However, IPART does not have a role in enforcing the actual outcomes for drivers and operators.

The issue of unequal market power among industry participants is considered by the taxi drivers to be the fundamental problem. For example, the NSWTDA argued at the public hearing that networks have substantial market power and limited accountability due to the regulations surrounding them.²

¹ NSWTDA presentation to IPART Public Hearing, transcript pp 13-23.

² NSWTDA presentation to IPART Public Hearing, transcript p 15.

Similarly, the ATDA submitted that:

...the Taxi Networks, under monopolistic domination, are where the rot started. There is no incentive for efficiency, better customer service for passengers or drivers, and no accountability. For the networks there are un-enforced, and almost non-existent standards, and no penalties.³

Other concerns have been raised regarding the market power of Cabcharge and the surcharge it imposes for electronic payments. The ATDA submitted that the Cabcharge fees impact significantly upon the average fare paid by consumers and is a cost which escalates directly with every recommended fare increase. The ATDA also expressed concern that the surcharge:

...is a monopoly based charge borne by passengers, over which IPART does not, or perhaps cannot exercise an interest. Whatever, it is a failing to safeguard the interests of the people of NSW from the abuses of monopoly power.⁴

Cabcharge currently provides the EFTPOS and credit card transaction facilities for 90 per cent of all taxis in Australia. Cabcharge includes both a proprietary payment mechanism (via a Cabcharge account accessed either through a docket or a card) and an electronic payments system used to process transactions on credit, charge and debit cards. Fares collected electronically using a Cabcharge mechanism attract a surcharge equal to 10 per cent of the fare. The surcharge is unregulated in all states and the full surcharge is billed directly to passengers. The Cabcharge surcharge is substantially above the level of service fees charged by most businesses who offer debit card transactions for free and surcharges on credit card payments of between 1 and 4 per cent.

Cabcharge is also involved in other aspects of the taxi industry. It owns 6 of the taxi networks in Sydney, and is the parent company of Combined Communications Network (CCN), which controls Taxis Combined Services, ABC Taxis, Silver Service, ComCab, 131008 Taxis, Yellow Cabs and South Western Cabs – which accounts for around 54 per cent of all taxis in NSW. Premier Cabs operates another network, accounting for around 15 per cent of NSW taxis. CCN and Premier Cabs control two of Sydney's four key taxi radio dispatch networks, which dispatch more than three quarters of all booked jobs to Sydney taxis. They are also two of the three major brokers for leasing taxi plates, providing leverage over current and potential lessees.⁵

IPART considers that the competition concerns raised in relation to Cabcharge warrant further attention. Of particular concern is the fact that Cabcharge is able to apply a surcharge to electronic payments at a level substantially above what exists for similar types of payments in a competitive environment and that Cabcharge charges a flat percentage fee on payments which is seemingly unrelated to the costs of processing the transaction. This situation is not limited to NSW but extends across all states of Australia and, as such, any review of this issue would benefit from

³ ATDA submission, March 2008, p 36.

⁴ ATDA submission, March 2008, p 26.

⁵ Nicholas, K. 'Hail fellow, well met: how Cabcharge controls the cabbies', Australian Financial Review, 28 September 2006.

consideration from a national perspective. In light of these factors, IPART considers that the Australian Competition and Consumer Commission may be well placed to review this issue.

IPART considers that for fare regulation to be really effective in terms of delivering efficient outcomes, it is important that the issues discussed above are addressed. IPART is of the view that there would be value in undertaking a full review of the industry that touches upon its structure, its viability and the impact of the regulations imposed. However, this is not a matter that IPART can investigate in the absence of a request from Government, as it is outside the scope of its fare reviews.

3 The cost items in the taxi cost index and their weightings

As Chapter 2 discussed, IPART bases its recommendations on maximum taxi fares on a Taxi Cost Index (TCI) first developed by PricewaterhouseCoopers in 1999. As part of last year's review, IPART reviewed and made changes to the cost items included in the TCI. As part of its 2008 review, IPART has considered further changes to the cost items, and has reviewed the weightings for these items to ensure they reflect the current costs of providing taxi services.

3.1 IPART's draft decisions on cost items and weightings

Table 3.1 shows IPART's draft decisions on the cost items and weightings to be included in the urban and country TCI for the 2008 review, and the taxi cost model that underlies the weightings.

IPART considers that these weightings should be used for the 2008 fare review, and for the subsequent four reviews.⁶ However, IPART has identified a number of issues that it would like to review further over the coming years. (These issues are discussed throughout this report.) IPART may reconsider the weightings in less than five years, if the findings of these reviews suggest that the weightings require further revision.

The subsequent sections discuss in more detail IPART's draft decisions on:

- ▼ changes to the cost items included in the TCI for the 2008 review
- ▼ changes to the weighting of each cost item, and how IPART reached its decisions on those weightings.

⁶ However, the weightings will still be adjusted each year according to changes in the relativities in costs that result from the inflators applied in the previous year.

Table 3.1 IPART's draft decisions on cost items and weightings in the urban and country taxi cost indices for 2008

	Urban		Country	
	Costs \$	Weight %	Costs \$	Weight %
Drivers' costs				
Notional drivers' labour costs ^a	99,435	50.08	100,965	53.58
LPG fuel	13,712	6.91	12,273	6.51
Other drivers' costs ^b	4,997	2.52	3,163	1.68
Total drivers' costs	118,144	59.51	116,401	61.78
Operators' costs				
Operators' salary equivalent	12,900	6.50	13,099	6.95
Maintenance costs	9,886	4.98	8,029	4.26
Plate lease costs	25,000	12.59	19,700	10.46
Insurance	14,958	7.53	8,521	4.52
Vehicle lease payments	4,107	2.07	4,107	2.18
Network fees	6,564	3.31	9,250	4.91
Other operators' costs ^b	6,981	3.52	9,319	4.95
Total operators' costs	80,396	40.49	72,025	38.22
Total costs	198,540	100.00	188,426	100.00

^a The Notional drivers' labour costs item is an amalgamation of the Notional drivers' wages item and Driver entitlements item included in the TCI for the 2007 review.

^b Other drivers' costs and Other operators' costs were incorporated in one item, Other costs, for the 2007 review.

3.2 Changes to cost items in the taxi cost index

IPART has made a draft decision to make three relatively minor changes to the cost items included in the TCI for the 2008 review. Specifically, it has:

1. Amalgamated the 'notional drivers' wages' and 'drivers' entitlements' items to form a new item called 'notional drivers' labour costs'. It has also added a superannuation cost component to drivers and operators labour.
2. Separated the 'other costs' item into 'drivers' other costs' and 'operators' other costs'.
3. Amalgamated the 'maintenance labour' and 'vehicle parts and panels' items to form a new item called 'maintenance costs'.

The rationale for each of these changes is outlined below.

3.2.1 Creating a single notional drivers' labour cost item

Notional drivers' wages and notional drivers' entitlements have historically been included in the TCI as separate cost items, and have been estimated on different bases. Historically, superannuation has not been included at all.

This more comprehensive review of the costs in the taxi industry and their weightings has allowed IPART to consider the issue of drivers' labour costs in a more holistic way. IPART's draft decision is to create one cost item that is intended to capture the opportunity cost of drivers' time. This opportunity cost includes the cost of wages foregone in alternative employment, plus the annual and sick leave and superannuation entitlements forgone in alternative employment. IPART considers that this approach will help to ensure that taxi fares continue to be sufficient to allow taxi drivers to earn enough income to make their own provisions for their own entitlements. (IPART's rationale for this decision is discussed in more detail in section 3.3.2 below.)

3.2.2 Separating other costs into drivers other costs and operators other costs

In the 2007 fare review, IPART amalgamated all costs with a weight of less than 2 per cent into an 'other costs' item, and inflated this item using the CPI. At this time, IPART considered that including these small cost items separately made the TCI cumbersome to administer, while each of these items individually had little impact on aggregate movements in the TCI.

The resulting 'other costs' item contained both drivers' and operators' other costs. In their submissions, stakeholders pointed out that this makes it difficult to allocate costs between drivers and operators.⁷ It also makes it difficult for stakeholders to comment on the appropriate level and weighting of these costs in the TCI.

To address these concerns, IPART has made a draft decision to separate the other costs item into 'other drivers' costs' and 'other operators' costs'. It considers that this will help industry stakeholders provide useful input on other costs. It will also provide more information for the Industrial Relations Commission to use when determining the level of the maximum pay-in to operators for drivers in urban areas.

3.2.3 Creating a single maintenance cost item

Maintenance labour and vehicle parts and panels have historically been included in the TCI as separate cost items. However, both are direct costs to operators of maintaining a taxi and in practice are difficult to separately identify. As these cost items are closely related, IPART considers that it makes little sense to continue to separate them in the TCI. In addition, IPART has made a draft decision to inflate

⁷ See Australian Taxi Drivers Association submission p 12.

both items by the same inflator (see Chapter 4). Therefore, IPART considers it more appropriate to combine them into a single item.

3.3 Revised weightings in the taxi cost index

For the TCI to continue to accurately measure changes in the cost of providing taxi services in urban and country NSW, the weightings of the cost items need to be periodically reviewed to ensure that they reflect the costs faced by the industry. To this end, the NSW Ministry of Transport commissioned PricewaterhouseCoopers (PwC) to undertake a survey of the costs in the taxi industry in August 2007. PwC provided a report outlining its recommended weightings, which IPART released publicly with its Issues Paper in February.

To reach its draft decisions on the weightings to apply for the 2008 review, IPART considered PwC's report and recommended weightings. It also considered stakeholders' responses to this report, and their views on the appropriate weightings provided in submissions and at the public hearing held on 11 March 2008. In particular, IPART carefully considered the submissions from the Australian Taxi Drivers Association (ATDA), the NSW Taxi Drivers Association (NSWTDA), and the Taxi Council of NSW (Taxi Council). These submissions commented extensively on PwC's proposed weightings, and the ATDA and Taxi Council submissions also set out alternative proposals for the values of the different cost items, and therefore their weightings. The submissions also criticised several aspects of PwC's report. For example, the ATDA pointed out that PwC's recommended cost model is not internally consistent.⁸

While IPART accepts that PwC's methodology may not be perfect, the survey nevertheless provides a recent and independent source of cost information for the NSW taxi industry and thus contains valuable information. For this reason, IPART has broadly based its draft decisions on PwC's recommended weightings. However, where submissions made convincing arguments, or better information became available, IPART has adjusted some of the weightings accordingly.

The sections below provide an overview of IPART's analysis and draft decisions on the weightings of the cost items, and then discuss the analysis and draft decision for each cost item in more detail. However, before considering this analysis, it's important to remember that in principle, the TCI is designed to measure changes in the cost of driving and operating a taxi: there is no explicit link between the level of costs implied by the TCI and the level of fares. The value of each cost item only influences IPART's annual recommendation on fare increases in that the relative size of this value gives rise to the weighting of the item within the TCI, and this weighting influences the overall level of change the index measures. Therefore, it is the relative size or value of each cost item, rather than the level of costs, that is important for determining TCI weightings.

⁸ See ATDA submission, March 2008, pp 12-13.

In their submissions (particularly in their responses to PwC's report), stakeholders tended to focus on the level of costs. Indeed, it is difficult to discuss relative costs without commenting on the level of each cost item. For this reason, most of the analysis discussed below focuses on the level of costs (ie, on the cost model that underlies the weightings). Nevertheless, it is important not to lose sight of the fact that it is the relative size of the costs that matters for determining TCI weightings.

(Note that IPART did consider the level of costs included in the TCI when it considered the current level of fares – this issue is discussed in detail in Chapter 7.)

3.3.1 Overview of analysis and draft decisions on weightings

Tables 3.2 and 3.3 compare the cost models that underlie the weightings in the current urban and country TCIs with the cost models used by PwC in formulating its recommended weightings, the alternative cost models proposed by the ATDA and the Taxi Council, and the cost models used by IPART to make its draft decisions.

Overall, the level of total costs in these models is broadly similar, but the allocation of the costs between operators and drivers varies considerably. IPART notes that the allocation of costs between drivers and operators has no effect on its fare recommendation. However, in the past, the Industrial Relations Commission has used the information about taxi industry costs that IPART publishes as part of its fare recommendation to set maximum 'pay-ins' that bailee drivers make to operators, and these play an important role in distributing fare revenue between drivers and operators. For this reason, IPART has attempted to clearly separate which costs are attributed to drivers and which to operators.

IPART has made draft decisions to amalgamate the notional drivers' wages and notional drivers' entitlements cost items, and the maintenance labour and vehicle parts and panels item, as discussed in section 3.2. IPART has also treated notional drivers' entitlements as a driver cost rather than a cost imposed on operators.

Table 3.2 Cost model IPART used to determine weightings for the urban taxi cost index, compared with current and alternative cost models (\$ per taxi, per year)

	Current	PwC	ATDA	Taxi Council	IPART
Drivers' costs					
Notional drivers' wages	74,630	91,915	83,451	79,326	-
Notional drivers' labour costs	-	-	-	-	99,435
LPG fuel	18,385	13,780	20,362	15,440	13,712
Other drivers' costs	-	3,328	11,000	3,182	4,997
Total drivers' costs	93,015	109,023	114,813	97,948	118,144
Operators' costs					
Notional drivers' entitlements	4,452	8,113	6,500	8,926	-
Operators' salary equivalent	15,044	9,617	2,000	15,388	12,900
Maintenance labour	9,515	4,368	5,500	4,368	-
Vehicle parts & panels	12,100	5,018	8,000	6,018	-
Maintenance costs	-	-	-	-	9,886
Plate lease costs	18,328	25,000	18,200	24,626	25,000
Insurance	14,901	13,537	14,500	14,958	14,958
Vehicle lease payments	9,520	4,107	8,500	8,296	4,107
Network fees	6,972	6,564	7,000	5,772	6,564
Other operators' costs	16,785	6,981	6,050	7,127	6,981
Operator margin	-	-	8,368	-	-
Total operators' costs	107,617	83,305	84,618	95,478	80,396
Total costs	200,632	192,328	199,431	193,426	198,540

Note: Unlike the other approaches, IPART has included drivers' entitlements as a driver cost and has amalgamated notional drivers' wages and entitlements into a single drivers' labour cost item along with an allowance for superannuation. Similarly, IPART amalgamated maintenance labour and vehicle parts & panels into a single maintenance cost item.

Source: IPART, 2007 fare review; PwC, *Review of Weightings in Taxi Cost Model*, January 2008; Submission from ATDA, March 2008; Submission from the Taxi Council of New South Wales, March 2008.

Table 3.3 Cost model IPART used to determine weightings for the country taxi cost index, compared with current and alternative cost models (\$ per taxi, per year)

	Current	PwC	ATDA	Taxi Council	IPART
Drivers' costs					
Notional drivers' wages	58,803	93,329	-	80,546	-
Notional drivers' labour costs	-	-	-	-	100,965
LPG fuel	15,658	11,505	-	14,893	12,273
Other drivers' costs	-	1,633	-	-	3,163
Total drivers' costs	74,461	106,467	-	95,439	116,401
Operators' costs					
Notional drivers' entitlements	-	8,113	-	-	-
Operators' salary equivalent	15,044	10,579	-	14,415	13,099
Maintenance labour	8,129	4,309	-	7,828	-
Vehicle parts & panels	6,292	3,220	-	6,071	-
Maintenance costs	-	-	-	-	8,029
Plate lease costs	9,542	19,700	-	19,700	19,700
Insurance	8,952	7,809	-	8,521	8,521
Vehicle lease payments	8,987	4,107	-	8,965	4,107
Network fees	11,365	9,250	-	11,427	9,250
Other operators' costs	13,264	9,319	-	3,545	9,319
Total operators' costs	81,575	76,407	-	80,472	72,025
Total costs	156,036	182,874	-	175,911	188,426

Note: Unlike the other approaches, IPART has included drivers' entitlements as a driver cost and has amalgamated notional drivers' wages and entitlements into a single drivers' labour cost item along with an allowance for superannuation. Similarly, IPART amalgamated maintenance labour and vehicle parts & panels into a single maintenance cost item.

Source: IPART, 2007 fare review; PwC, *Review of Weightings in Taxi Cost Model*, January 2008; Submission from the Taxi Council of New South Wales, March 2008.

The difference between the cost model IPART used to make its draft decisions on the weightings and the model PwC used stem largely from the fact that IPART:

- ▼ Calculated the level of the notional drivers' labour costs item for both urban and country taxis by:
 - using the annual and sick leave pay rate specified in the Taxi Industry (Contract Drivers) Contract Determination to determine the notional drivers' wages component (whereas PwC used the part-time bus drivers' wage specified in the Transport Industry - Motor Bus Drivers and Conductors (State) Award)
 - determining the notional drivers' entitlements component by applying a 15 per cent casual loading to this notional drivers' wages component, whereas PwC calculated drivers' entitlements based on the obligations on operators to provide annual and sick leave set out in the Contract Determination

- then determining the superannuation component by applying a further 9 per cent loading.
- ▼ Calculated the LPG fuel cost item by applying the average LPG fuel price over the year to March 2007, whereas PwC used a point estimate of this price at the time of the survey. IPART considers that its approach is more appropriate, but notes it makes little difference to the relative size of the LPG fuel cost item.
- ▼ Increased PwC's estimate of other drivers' costs to allow two hours per taxi per week for administration (one hour for each permanent driver).
- ▼ Increased PwC's estimate of other operators' costs to allow 10 hours for administration per taxi per week. This decision reflects IPART's acceptance of stakeholder views that PwC's survey methodology may have been flawed in regards to estimating the time operators spent on administration per week, and is consistent with the 1999 survey findings in relation to this time.
- ▼ Removed the holiday pay loading from the proxy wage rate PwC used to estimate operators' salary equivalent, but added a 9 per cent superannuation loading, in line with IPART's treatment of these entitlements for drivers.
- ▼ Increased PwC's estimate of the annual cost of panels included in the vehicle parts and panels/maintenance cost item from \$500 to \$1,000, based on a standard insurance excess.

3.3.2 Analysis and draft decision on weightings in detail

Notional drivers' labour costs

The most significant cost associated with providing taxi services is the cost of the drivers' time. This cost is not observable, because taxi drivers do not earn a fixed salary; rather, their earnings are based on the fare revenue they generate per shift, minus their costs (which include pay-ins to operators, fuel costs and other costs). However, notional drivers' labour costs are included in the TCI to ensure that fares continue to be sufficient to provide an appropriate level of remuneration for drivers' time.

The appropriate basis for estimating the level of notional drivers' labour costs was the subject of considerable stakeholder debate. To estimate the notional drivers' labour costs included in its cost model, IPART considered the assumptions that underlie the alternative estimates of these costs – including assumptions about how many hours each taxi is on the road per year, drivers' proxy hourly wage rate, the basis for determining leave entitlements, and the appropriateness of including an allowance for superannuation.

Hours each taxi is on the road

The costs in the taxi cost model are expressed in annual terms, so estimating the level of the notional drivers' labour cost item requires assumptions about how many hours each taxi is on the road over a year. Based on the survey results, PwC estimated that:

- ▼ in urban areas, each taxi is operated for 10 shifts per week for 52 weeks of the year
- ▼ in country areas, that each taxi is operated for 11 shifts per week, for 48 weeks per year.

Given that the survey suggested that a shift typically lasts for 9 hours, this implies that each urban taxi is operated for a total of 4,680 hours per year, and each country taxi is operated for a total of 4,572 hours per year.

The Taxi Council accepted these estimates, but the ATDA argued that in order for an operator to cover its own costs through pay-ins from drivers, a standard taxi in urban areas must be operated for 13 shifts per week for 50 weeks per year. The ATDA also suggests that each taxi spends 6,650 hours on the road annually, which implies the average shift lasts for 10.2 hours.

IPART accepts PwC's estimates of the time each taxi is on the road, given that they are based on the survey findings and there is no persuasive evidence to suggest that they are unreasonable.

Drivers' proxy hourly wage rate

PwC used the hourly wage rate for a part-time bus driver of \$19.64, as specified in the *Transport Industry – Motor Bus Drivers and Conductors (State) Award* as a proxy wage rate for taxi drivers. PwC chose this proxy wage rate on the basis that the skills required to drive a bus – driving and fare collection – are broadly similar to the skills required to drive a taxi.

The ATDA argued that this proxy wage rate is inappropriate because taxi drivers' work conditions are not comparable with those of bus drivers. For example, taxi drivers are required to work more unsociable hours, longer hours of continuous work, and in less safe conditions.

The Taxi Council argued that the wage rate specified in the Contract Determination for leave entitlements (\$16.95 per hour at the time of the PwC survey) would be a more appropriate proxy wage rate, since that is the value the Industrial Relations Commission places on a taxi driver's time.

IPART agrees with the Taxi Council that the \$16.95 hourly wage rate specified in the Contract Determination is the most appropriate proxy wage rate for taxi drivers, because it is specific to NSW taxi drivers. It notes that the specific working conditions of taxi drivers the ATDA raised are at least partly compensated for in the 20 per cent night time surcharge on taxi fares.

Basis for determining drivers' leave entitlements

The Contract Determination referred to above sets out obligations on operators to pay permanent drivers in urban areas the equivalent of five weeks annual leave and allow for five to eight days sick leave, subject to certain conditions about length of bailment and minimum shifts driven and uses an hourly rate to determine these entitlements. PwC included a value for these entitlements in the operators' cost item in its cost model for both the urban and country taxi indices.

The ATDA and NSWTDAs both claimed that only a small proportion of drivers (in the order of 2 per cent) are paid these entitlements. The PwC survey results support this claim, in that only a small proportion of drivers reported that they are paid these entitlements. However, taxi operators disputed the claim at the public hearing. They argued that in the taxi industry, drivers' entitlements can be paid in a number of indirect ways, such as through a discounted pay-in, or through commission offsets. As a result, drivers may in fact be receiving the entitlements without realising it. The PwC survey findings support this view, in that 67 per cent of drivers reported that they were unsure of whether their pay-in was discounted for this purpose.

PwC noted that the Contract Determination does not apply to country drivers, so there is no legal obligation for operators to provide annual and sick leave entitlements to country drivers. However, it included notional drivers' entitlements in its cost model for country taxis on the basis that country drivers should be in a position to make their own provision for annual leave and sick leave. The Taxi Council argued that since the Contract Determination does not apply to country drivers, drivers' entitlements should not be included in the country TCI.

IPART agrees with PwC that both urban and country taxi drivers should be in a position to make provision for annual and sick leave. However, it decided to include this provision within its cost item by applying a casual loading of 15 per cent to the \$16.95 proxy hourly wage rate discussed above (rather than including drivers' entitlements as a separate cost item) on the following grounds:

- ▼ IPART considers that this approach is a more transparent way of ensuring that fares are sufficient to compensate for entitlements to drivers. While IPART accepts that some drivers may not be aware they are receiving entitlements through indirect means, it also believes it likely that many operators are not paying drivers' entitlements. It notes that the NSWTDAs provided a transcript of an Industrial Relations Commission hearing in 2005, in which the then Executive Director of the Taxi Industry Association agreed that around 70 per cent of operators do not pay permanent drivers their entitlements.
- ▼ IPART also considers that including notional drivers' entitlements as a drivers' cost, rather than an operators' cost, is also more consistent with the treatment of taxi drivers as small business owners, rather than salaried employees.

- ▼ IPART also considers it reasonable for both permanent and casual drivers to receive compensation in lieu of entitlements by retaining a greater share of fare revenue. Currently, only drivers that meet certain requirements are eligible to receive entitlements. In other industries, casual employees are compensated for entitlements through a loading on their wage rate.

The loading applied to compensate casual employees for entitlements varies across industries but is generally between 15 and 33.3 per cent above the normal full-time hourly rate.⁹ A 15 per cent casual loading applies to many Awards in the transport sector, including the *Transport Industry (State) Award* and the *Transport Industry – Motor Bus Drivers and Conductors (State) Award*. In the absence of further information, IPART has decided to apply this 15 per cent loading to all drivers whether they are permanent or casual. However, IPART may consider this issue further in light of submissions received in response to this draft report.

Appropriateness of including superannuation costs

In the 2007 fare review, IPART did not consider it appropriate to add drivers' superannuation on top of the wage rate included in the taxi cost model. This was partly because it took a minimal change approach to the review, in light of expected changes to the TCI in 2008. IPART also argued that while superannuation was not explicitly included in the index, it had not been excluded altogether, since superannuation guarantee requirements in other industries were effectively funded through lower wages growth. However, the more comprehensive review of industry costs has allowed this issue to be considered in conjunction with the wage rate selected.

The notional drivers' labour costs item is intended to capture the opportunity cost of the drivers' time. PwC used the award wage rate of a part-time bus driver as the proxy wage rate to measure the opportunity cost of a driver's time. However, since bus drivers are salaried employees, they also receive superannuation entitlements on top of this rate. Therefore, the true opportunity cost of a taxi driver's time includes, not only the wages foregone in alternative employment, but superannuation entitlements foregone as well. While IPART has not used that award wage rate as the notional drivers' wage rate, the principle with respect to superannuation is the same. Driving a taxi is a legitimate career choice. It is reasonable for those that choose that career to earn sufficient income to make their own provision for superannuation.

For this reason, IPART has added a further 9 per cent loading to the proxy hourly wage rate discussed above. This results in notional drivers' labour costs (including wages, entitlements and superannuation) of \$21.25 per hour.

Table 3.4 summarises the assumptions underlying IPART's cost model, and the alternative models proposed by PwC and stakeholders.

⁹ NSW Industrial Relations Commission, April 2008.
<<http://www.industrialrelations.nsw.gov.au/rights/employer/relation/awards.html#basic>> .

Table 3.4 Assumptions underlying notional drivers' labour costs estimates

	PwC	ATDA	Taxi Council	IPART
Urban				
Operating assumptions:				
▼ Shifts per week	10	13	10	10
▼ Weeks per year	52	50	52	52
▼ Hours per shift	9.0	10.2	9.0	9.0
▼ Hours per year	4,680	6,650	4,680	4,680
Notional drivers' labour costs:				
▼ Proxy hourly wage rate	19.64	19.64	16.95	16.95
▼ Entitlements (\$ per annum)	8,113	6,500	8,926	-
▼ Entitlements (%)	-	-	-	15.0
▼ Superannuation (%)	-	9.0	-	9.0
▼ Proxy hourly wage (including super)	19.64	21.41	16.95	21.25
Total driver labour costs	100,028	148,861 ^a	88,252	99,435
Country				
Operating assumptions:				
▼ Shifts per week	11	-	11	11
▼ Weeks per year	48	-	48	48
▼ Hours per shift	9	-	9	9
▼ Hours per year	4,752	-	4,752	4,752
Notional drivers' labour costs:				
▼ Proxy hourly wage rate	19.64	-	16.95	16.95
▼ Entitlements (\$ per annum)	8,113	-	-	-
▼ Entitlements (%)	-	-	-	15.0
▼ Superannuation (%)	-	-	-	9.0
▼ Proxy hourly wage (including super)	19.64	-	16.95	21.25
Total driver labour costs	101,442	-	80,546	100,965

^a This amount is implied from the information in ATDA's submission, but is significantly greater than the amount included in the ATDA's cost model.

Source: PwC *Review of Weightings in Taxi Cost Model*, January 2008; Submission from the Taxi Council of New South Wales, March 2008 and Australian Taxi Drivers' Association submission, March 2008.

LPG fuel

The level of the LPG fuel cost item in the cost model depends on assumptions made about the distance each taxi travels per year, the fuel consumption of the vehicle, and the price of fuel.

Distance travelled per year and fuel consumption

Based on the survey results, PwC estimated that a standard taxi travels 130,000 kilometres annually (2,500 kilometres per week) in urban areas and 117,000 kilometres per year (2,250 kilometres per week) in country areas. The survey

also suggested that fuel consumption is around 5 kilometres per litre in urban areas and 6 kilometres per litre in country areas. This implies total fuel consumption of 26,000 litres per year in urban areas and 19,500 litres per year in country areas.

Information provided by the ATDA broadly supported the survey findings on distance travelled for urban areas. However, this information also suggests that a standard taxi uses 29,000 litres of fuel, implying fuel consumption of only around 4.5 kilometres per litre.

The Taxi Council estimated that an average urban taxi travels 162,000 kilometres per year – which is significantly further than PwC’s survey indicated. This estimate was based on a survey of odometer readings taken from inspection reports for a sample of 29 taxis. The Taxi Council could not adequately explain why there was such a discrepancy between the findings of PwC’s survey and this smaller survey. Therefore, it proposed using an estimate of 145,000 km per year for urban taxis, which is around the mid-point of the two findings. For country areas, the Taxi Council estimated that a standard taxi travels 125,000 kilometres per year.

IPART accepts PwC’s estimates of the distance a typical taxi travels per year and fuel consumption. These estimates were based on the findings of a recent survey that had a larger sample size than surveys undertaken by the industry participants. In addition, it considers that these participants’ submissions did not provide a compelling case to suggest that the results of PwC’s survey were inaccurate.

Price of fuel

PwC used a price of 53 cents per litre in estimating the LPG fuel cost. This price was based on the median price reported in the survey. The ATDA’s estimate of this cost appears to have assumed a much higher price – around 70 cents per litre – which is in line with more recent prices for LPG. The Taxi Council’s estimate assumed a price of 53.45 cents per litre, based on the average price of LPG as reported on the Gogas website for 35 locations for the period April 2007 to January 2008.

In past fare reviews, IPART has inflated fuel prices based on a comparison of the annual average of daily LPG prices. This is done in order to obtain a more representative picture of this volatile cost item by ensuring that the cost estimate is not biased by the fuel price on any particular day. IPART considers that it is appropriate to also base the weighting of the LPG fuel cost item on the average annual price. It notes that the Taxi Council supports this approach.

Using the average price over the year from April 2006 to March 2007, this approach results in a price of 52.74 cents per litre in urban areas and 62.94 cents per litre for country areas. These prices do not reflect the significant increases in fuel prices seen in recent months. Rather, the prices IPART has used in its making its draft decision on the weighting of the LPG fuel cost item is based on 2007 costs. It is appropriate that this weighting does not reflect the higher LPG prices in early 2008, as those increases will be captured when the fuel cost item is inflated to reflect the change in the cost of this item over the past year. This process will also increase the weighting

of the LPG fuel cost item in the 2008 TCI. If the higher 2008 LPG price was included in the base weightings as well as the inflator, the impact of these price increases would be double counted.

Table 3.5 summarises the assumptions underlying IPART's and the alternative estimates of LPG fuel costs.

Table 3.5 Assumptions underlying estimates of LPG fuel costs

	PwC	ATDA	Taxi Council	IPART
Urban				
Distance travelled	130,000	131,000	145,000	130,000
Kilometres per litre	5.00	4.52	5.00	5.00
Litres per year	26,000	29,000	29,000	26,000
Price per litre (\$)	53.00	70.21	53.24	52.74
LPG fuel costs	13,780	20,362	15,440	13,712
Country				
Distance travelled	117,000	-	125,000	117,000
Kilometres per litre	6.00	-	5.00	6.00
Litres per year	19,500	-	25,000	19,500
Price per litre (\$)	59.00	-	59.57	62.94
LPG fuel costs	11,505	-	14,893	12,273

Note: See the above discussion for an explanation of the differences in the assumptions used to estimate LPG fuel costs.

Source: PwC, *Review of Weightings in Taxi Cost Model*, January 2008; submission from the Taxi Council of New South Wales, March 2008; submission from the Australian Taxi Drivers' Association, March 2008.

Other drivers' costs

Of the 'other costs' estimated by PwC, \$3,328 were considered drivers' costs for urban taxis and \$1,633 were considered drivers' costs for country taxis (Table 3.6). These items were not explicitly shown in the PwC report, which led the ATDA to claim some costs incurred by drivers, such as the daily taxi cleaning costs had been omitted.

Table 3.6 Other drivers' costs included in PwC's recommendations (dollars)

	Urban	Country
Driver's licence	43	43
Driver authority	40	40
Driver cleaning of taxi and uniform	2,080	1,040
Mobile phone costs	624	-
Other ^a	541	510
Total	3,328	1,633

^a Includes costs associated with driver administration, preparing Business Activity Statements and bank fees.

Source: Survey information provided by PwC.

Nevertheless, the ATDA still argued that PwC's estimate of other drivers' costs was inadequate. In particular it argued that:

- ▼ Drivers' taxi cleaning costs are \$3,500 per annum, which is significantly higher than the cost included in PwC's cost model.
- ▼ Drivers' costs related to administering their shifts are \$7,500 per annum. It pointed out that taxi drivers operate as small businesses and therefore must spend some time administering that business. PwC's estimate of less than \$600 for administering the business over the course of the year significantly underestimates the actual costs involved. The ATDA argued that these costs should be estimated based on 7 hours per week, and notional drivers' wage rate of \$19.49 per hour (an indicator of the opportunity cost of the drivers' time).

IPART accepts that there are some costs for drivers associated with administering their business, and has allowed for two hours per week per taxi for this. Assuming there are two permanent drivers for each taxi, this amounts to around one hour per week each. IPART has accepted PwC's recommendations on the remaining cost items as it considers that insufficient information has been provided to demonstrate that the survey results are not representative of the level of those costs.

Operators' salary equivalent

Like notional drivers' labour costs, the operators' salary equivalent is not directly observable. It is included in the TCI to ensure that fares continue to be sufficient to cover the costs associated with operating the taxi fleet. The value of this cost depends on the time operators spend administering each taxi and the opportunity cost of their time.

Time spent on administration per taxi

For the urban TCI, PwC estimated that operators spend 7.5 hours per week on administration based on the mean (average) survey response. PwC used the mean response, rather than the median response that it used for most other cost items in order to 'capture the large variation in hours that arises due to differences in the number of vehicles in an operator's fleet'.

In the Issues Paper, IPART pointed out that the TCI was designed to measure the cost of operating a single taxi. Using the mean total time spent on fleet administration would include the time spent by some operators that operate multiple taxis, which could be expected to result in a higher estimate than a per taxi figure. IPART notes that median survey response from all respondents was less than 5 hours, while its own analysis suggests that the weighted average time spent on administration per taxi is 4.3 hours per week in urban areas.

However, the Taxi Council argued that the survey results are likely to significantly understate the time operators spend on the administration of their business. Its reasons include that:

- ▼ Many single taxi operators also drive their own vehicle and therefore must attend the changeover as both a driver and operator. In its view, many of these drivers are likely to report this as driving time rather than administration time. To support this claim, the Taxi Council pointed out that the survey also suggests that operators spend on average 61 minutes per day attending changeover, which accounts for nearly all the administration time reported in the survey.
- ▼ The infrequent nature of some tasks means that they are unlikely to be reported accurately in the survey.

The Taxi Council conducted its own survey of 14 single-taxi operators. According to that survey, operators spent an average of 18.6 hours on administration per week. The median response was 16.5 hours. For the purpose of weighting the TCI, the Taxi Council proposed using 12 hours, which is the midpoint of the median responses of the two surveys.

For the country TCI, PwC scaled up the number of hours operators spend on administration, based on the extra shift driven by country operators per week. However, PwC did not account for the fewer number of weeks it assumed country taxis operate per year. The Taxi Council's estimate for country operators implies 12.2 hours per week.

IPART considers that the Taxi Council's criticisms of the PwC survey are reasonable. However, given that its survey was of single taxi operators that mostly also drive, some of the time they reported for administration may be associated with their role as a driver, rather than an operator (see 'other driver costs' section). For example, if the operator/driver only attends the shift changeover because they are either starting or finishing their driving shift, this should not be included as an operator expense. The TCI used for the 2007 review allowed for 10 hours per week on administration. In IPART's view, there is no reason why this should have increased, as suggested by the Taxi Council's survey. On the contrary, it is more likely that operators have improved their productivity over that period of time.

Given the above, IPART considers it reasonable to assume that each operator in urban areas spends 10 hours per week on administration, while each operator in country areas spends 11 per hours. IPART's assumption in relation to country operators' follows PwC's approach of scaling up the hours for urban operators to reflect the greater number of shifts per week in country areas, but also makes an adjustment for the fewer number of weeks operated per year.

Opportunity cost of operators' time

Both PwC and the Taxi Council applied a proxy hourly wage rate of \$24.66 to the estimated hours spent administering each taxi. This is based on the *Clerical and Administrative Employees Hire Cars and Taxis State Award*, Grade 5 Casual with casual holiday pay added on.

IPART considers that a proxy wage rate of \$22.76 per hour is appropriate. This rate is based on the same award rate PwC used, but excludes the casual holiday pay, while retaining the casual loading. IPART has also added a 9 per cent superannuation loading. This is consistent with IPART's treatment of these entitlements for drivers.

Table 3.7 summarises the assumptions underlying IPART's and the alternative estimates of the level of the operators' salary equivalent cost item.

Table 3.7 Assumptions underlying operators' salary equivalent estimates

	PwC	ATDA	Taxi Council	IPART
Urban				
Operating assumptions:				
▼ Hours per week	7.5	-	12.0	10.0
▼ Weeks per year	52	-	52	52
▼ Total hours	390	-	624	520
Operator labour costs:				
▼ Proxy hourly wage	22.76	-	22.76	22.76
▼ Casual holiday pay	1.90	-	1.90	-
▼ Superannuation (%)	-	-	-	9.0
Operators' salary equivalent	9,617	2,000	15,388	12,900
Country				
Operating assumptions:				
▼ Hours per week	8.25	-	13.2	11
▼ Weeks per year	52	-	52	48
▼ Total hours	429	-	686	528
Operator labour costs:				
▼ Proxy wage	22.76	-	22.76	22.76
▼ Casual holiday pay	1.90	-	1.90	-
▼ Superannuation (%)	-	-	-	9.0
Operators' salary equivalent	10,579	-	16,927	13,099

Source: PwC *Review of Weightings in Taxi Cost Model*, January 2008; Taxi Council of New South Wales, submission March 2008 and Australian Taxi Drivers' Association submission, March 2008.

Maintenance costs

For urban areas, PwC estimated the cost of maintenance labour as \$4,368 per taxi per year. This estimate assumes 7 hours of maintenance per month at \$52 per hour, based on the survey findings. The Taxi Council accepted this estimate and assumptions. The ATDA estimated that the cost of maintenance labour was higher – \$5,500 per taxi per year – but did not adequately justify this estimate. For this reason, IPART accepts PwC's estimate.

For country areas, PwC scaled down the cost of maintenance labour to reflect the lower number of kilometres travelled by country taxis, but assumed a higher cost of \$57 per hour, based on the results of the survey. The Taxi Council's estimate was somewhat higher at \$7,828. Using the hourly rate of \$57 from the PwC survey, this implies 11.4 hours of maintenance labour per month. IPART accepts PwC's estimate as it is an independent estimate which is based on the survey results.

To estimate the cost of vehicle parts and panels, PwC assumed that each taxi requires a major service every 20,000 kilometres and a minor service every 10,000 kilometres. Based on the survey results, it assumed parts cost \$575 for every major service and \$60 every minor service. This implied that parts cost \$4,518 every year in urban areas and \$2,720 every year in country areas.

The Taxi Council accepted PwC's estimate for urban areas, but proposed a higher estimate for country areas. PwC's lower estimate for country areas is due to the lower number of kilometres travelled by country taxis per year. Because the Taxi Council did not justify its higher estimate for country areas, IPART accepts PwC's lower estimate.

The Taxi Council also argued that the cost of panels in both urban and country areas is higher than PwC's estimate. PwC estimated this cost at \$500 per year, based on half the standard excess suggested by the survey. This allows for damage to the vehicle only once every two years. The Taxi Council added an extra \$1,000 to this estimate, arguing that taxis regularly get damaged by passengers, which operators are required to fix. IPART considers that it is reasonable to at least include the full \$1,000 excess in the estimate for the annual cost of panels.

Licence plate lease costs

For urban areas, PwC estimated that licence plate lease costs are around \$25,000, based on its survey findings. This estimate is similar to the one the Taxi Council proposed, but higher than the one ATDA proposed (\$18,200). Because the ATDA did not convincingly substantiate its proposed estimate in its submission, IPART accepts PwC's estimate.

For country taxis, both PwC and the Taxi Council estimated that licence plate lease costs are \$19,700.¹⁰ This is based on a 3 percentage point premium on the average bond rate. IPART accepts PwC's estimate.

Insurance

PwC's estimated insurance costs as \$13,537 per taxi per year based on the following:

- ▼ comprehensive car insurance policy, at a cost of \$5,000, based on the median survey response (including a 60 per cent no claim bonus)

¹⁰ PricewaterhouseCoopers *Review of Weightings in Taxi Cost Model*, January 2008, p 16.

- ▼ third party property insurance at a cost of \$2,638, (weighted by 99 per cent of respondents who obtain that type of insurance) based on the median survey response
- ▼ CTP greenslip at a cost of \$3,697, based on a quote from QBE Insurance
- ▼ workers' compensation insurance, at a cost of \$2,228, based on the median survey response.

According to the Taxi Council, comprehensive insurance policies include third party property damage and therefore PwC has double-counted. However, the Taxi Council also argued that PwC appears to have obtained quotes based on an 80 per cent no claim bonus and the redbook value of the vehicle, which results in an understatement of the cost of insurance.

IPART accepts that there may be some problems with PwC's estimates, and therefore accepts the Taxi Council's insurance cost estimate. However, it notes that the difference between PwC's and the Taxi Council's overall insurance cost estimate is not significant. In addition, IPART will use independent data to inflate this cost item (see Chapter 4).

Vehicle lease payments

PwC's estimate of vehicle lease payments¹¹ is significantly lower than the estimates provided by the Taxi Council and the ATDA. PwC's estimate is \$4,107 per taxi per year, assuming:

- ▼ an estimated cost of \$12,000 for a second-hand vehicle plus a fit-out cost of \$2,500 in both rural and urban areas
- ▼ the purchase of the vehicle was funded by a bank loan with a four year term, at an interest rate of 8.5 per cent and a residual value of 10 per cent.

The Taxi Council argued that PwC's estimate is based on some erroneous assumptions. In particular:

- ▼ PwC ignored the 31 per cent of operators who purchased new vehicles
- ▼ PwC based its purchase cost on a Ford Falcon, but an increasing proportion of the fleet are long-wheelbase vehicles, such as Holden Statesman, Ford Fairlane and Toyota Tarago
- ▼ average resale prices will not accurately reflect typical prices paid for vehicles purchased because white cars (used for taxis) typically cost around 25 per cent more than cars of other colours
- ▼ purchasing a new vehicle will not result in significant savings in the cost of maintenance

¹¹ Operators can either lease a vehicle or purchase it outright. Since lease payments should reflect the value of the vehicle, both should involve broadly similar costs. PwC's estimate of vehicle lease payments is based on a loan repayment.

- ▼ it is not clear whether the redbook valuation includes the cost of conversion to LPG.

The Taxi Council's own estimate for this cost is \$8,296 in urban areas and \$7,480 in country areas, assuming a vehicle purchase cost of \$25,000 for urban areas and \$22,000 for country areas.

After considering the views put forward by the Taxi Council, IPART accepts PwC's recommendations for vehicle lease payments. IPART considers that the Taxi Council has not made a strong case as to why an operator would choose to buy a new vehicle when a cheaper option is available. Furthermore, more expensive long-wheelbase vehicles are not required for standard taxis and therefore, should not be included in the TCI, which estimates costs for a 'typical' taxi. IPART's draft report includes a draft recommendation to undertake a trial deregulation of booking fees for premium taxis, which could allow the extra costs associated with these vehicles to be recovered through a higher booking fee for premium taxis (see Chapter 9).

Network fees

PwC's estimate of network fees is based on the median network fees reported in the survey, and were confirmed by quotes obtained by PwC and a phone survey conducted by the Ministry of Transport. The Taxi Council and the ATDA proposed alternative estimates for urban areas – one higher and one lower than PwC's estimate.

IPART accepts PwC's estimate of network costs. It considers that the Taxi Council and ATDA's submissions did not put forward a persuasive case for not using the survey results. It also notes that PwC's estimate of network costs for urban areas is roughly the mid-point of the estimates provided by the Taxi Council and the ATDA.

Other operators' costs

PwC estimated other operators' costs at \$6,981 for urban taxis and \$9,319 for country taxis (Table 3.8).

Table 3.8 Other operators' costs

	Urban	Country
Government charges	820	820
Cleaning –regular	1,825	2,920
Cleaning – major detailing	400	1,200
Tyres	1,261	1,404
Uniform	275	275
Other	2,400	2,700
Total	6,981	9,319

Note: 'Other' includes the costs of driver administration, preparing Business Activity Statements and bank fees.

Source: Survey information provided by PwC.

While there were some differences between PwC's estimates for these components for urban taxis and those provided by the Taxi Council, their overall estimates for other operators' costs were broadly similar. The difference for country taxis was somewhat larger. IPART accepts PwC's overall estimates of other operators' costs.

4 Inflaters for the cost items in the taxi cost index

In 2007, IPART reviewed and revised many of the inflators used to calculate the annual change in the cost items in the TCI. Its aim was to use data that is independent, verifiable and transparent for inflating each cost item, rather than relying on data provided by stakeholders. This year, IPART has further reviewed the inflators for some cost items, to address some issues left outstanding in 2007 and in response to stakeholder comments. IPART has also reconsidered the way it applies the productivity adjustment.

4.1 IPART's draft decisions

IPART has made draft decisions to apply the productivity adjustment by adjusting the value of the inflator used to inflate the notional drivers' labour costs and operators' salary equivalent cost items, rather than applying this adjustment after the change in the TCI was calculated (as it did in 2007). IPART considers that this approach has several benefits, including allowing for a clearer presentation of the change in the TCI, and allowing for a separate productivity adjustment for drivers and operators' labour costs if this is warranted. IPART has also made draft decisions to revise the inflators used for maintenance costs, licence plate lease costs and for network fees in the TCI for country areas.

IPART has used the revised inflators in making its draft recommendations. Where possible, the value of the inflators has been calculated using 12 months of data to the end of March 2008. However, where data to the end of March 2008 was not yet available, the value of the inflators has been calculated using the most recent 12 months of data available. For the final report, all inflators will be calculated using 12 months of data to the end of March 2008. As a result, the calculated change in the TCI in the final report is likely to be slightly different to the change calculated for the draft report.

Table 4.1 summarises IPART's draft decisions on the inflator for each cost item, and indicates the value of the inflator for the draft report, and the inflator used for the 2007 review. The following sections discuss the inflator used for each cost item in more detail.

Table 4.1 Inflaters used to calculate the change in the TCI for the draft report

Cost item	Inflator	Value of inflator (%)	Inflator used in 2007 review – if different
Notional drivers' labour costs	WPI-X ^a	3.5	WPI
LPG Fuel	Fueltrac LPG data	Urban – 12.7 Country – 6.6	-
Other drivers' costs	CPI	1.9	-
Operators' salary equivalent	WPI-X ^a	3.2	WPI
Maintenance costs	CPI – Motor vehicle repairs and servicing	2.4	Vehicle parts and panels – CPI – Motor vehicle parts and accessories Maintenance labour - WPI
Plate lease costs	Quotes for leasing taxi plates from taxi networks provided by the NSW Taxi Council	10.7	1 year bond rate applied to licence plate transfer values supplied by the Ministry of Transport
Insurance	CPI – Insurance services	1.8	-
Vehicle lease payments	CPI – Motor vehicles	0.0	-
Network fees	Weighted average of urban network fees	4.0	Urban – No change Country – Weighted average of country network fees
Other operators' costs	CPI	1.9	-

^a X is equal to the productivity adjustment, which is not the same for drivers and operators.

Note: WPI is the Wage Price Index, CPI is the Consumer Price Index.

4.2 Notional drivers' labour costs

As Chapter 3 discussed, the notional drivers' labour costs item includes notional drivers' wages, notional drivers' entitlements and superannuation. IPART's draft decision is to inflate this cost item by the Wage Price Index (WPI), and to adjust the value of this inflator to account for productivity gains before calculating the change in the TCI. This results in a value for this inflator of 3.5 per cent, based on a WPI of 3.8 per cent and a productivity adjustment of 0.3 per cent. Please note that the value of the WPI has been calculated using data for the 12 months to the end of December 2007. Therefore, this value may change in the final report, when data for the 12 months to the end of March 2008 will be used.

The following sections explain why IPART has decided to use the WPI as the inflator, why and how it has adjusted the value of this inflator to account for productivity gains, and how it determined the size of the productivity adjustment.

4.2.1 Why IPART decided to use the WPI as the inflator

IPART used the WPI to inflate the notional drivers' wages and drivers' entitlements cost items in 2007. However, in the issues paper for the 2008 review, IPART indicated that it may be more appropriate to inflate the drivers' entitlements item using the Non-Wage Price Index for annual and holiday leave (NWPI).

After considering this option, IPART considers that the WPI is more appropriate. The NWPI is calculated as an annual figure on a financial year basis. Therefore, the most recent data available to adjust the TCI would be for the previous financial year. For this review, this would be the 2006/07 financial year. In contrast, the most recent data on the WPI would be the 12 months to the end of March 2008, which is much more recent. IPART also notes that the NWPI for annual and holiday leave and superannuation have tended to move in line with WPI (Table 4.2).

Table 4.2 Recent changes in the WPI and the NWPI for annual and public holiday leave and superannuation

	2004/05 %	2005/06 %	2006/07 %
WPI	3.6	4.1	3.8
NWPI – annual and holiday leave	3.7	4.1	3.8
NWPI – superannuation	3.6	4.2	3.9

Note: the figures above are based on the relevant all Financial Year Index, New South Wales, All industries, Private and Public.

Source: ABS, Catalogue 6345.0.

4.2.2 Why and how IPART adjusted the value of the WPI to account for productivity gains

In recent fare reviews, IPART has applied a productivity adjustment to the calculated increase in the TCI before using that increase as the basis for its fare recommendations. In competitive markets, competition between producers provides incentives for them to improve their productivity for their own benefit, as well as the benefit of consumers. As one of the aims of economic regulation is to simulate these incentives, IPART considers that it is appropriate for it to adjust the calculated increase in the TCI to reflect a reasonable assumption of the productivity improvements that were possible in the taxi industry since the last review.

IPART considers that productivity improvements in the industry reduce the real cost of providing taxi services, for given inputs. While some of the inflators used by IPART already reflect productivity improvements in the broader economy, the WPI does not. If the industry improves its productivity over the regulatory period, then using the WPI to inflate the labour cost components of the TCI without any productivity adjustment would overstate the increase in unit labour costs (labour costs per unit of output). Making a productivity adjustment to these labour cost components:

- ▼ provides an incentive for the industry to improve productivity in order to maintain returns to labour and capital
- ▼ ensures that consumers share in some of the benefits of improved productivity through lower fares, as would be the case in a competitive market.

In the 2007 review, IPART applied a productivity adjustment to the total labour costs after it had inflated these and determined the overall change in the TCI. However, for the 2008 review, IPART has made a draft decision to adjust the value of the inflator for the two labour costs items (notional drivers' labour costs and operators' salary equivalent) before inflating these items. IPART considers that this approach has several advantages, including that it:

- ▼ Enables a clearer link between the change in the TCI and IPART's recommended fare increases. By adjusting the inflators for the labour cost items for productivity, the calculated change in the TCI should be equal to the recommended change in fares.
- ▼ Means that the inflators for the labour cost components will represent the change in the unit labour costs, which is a better measure of the actual changes in costs.
- ▼ Facilitates separate productivity adjustments for operators and drivers, which allows stakeholders to more easily identify overall costs attributable to drivers and operators in the TCI.

IPART has calculated the value of the productivity-adjusted WPI using the following formula:

$$WPI - X = \frac{1 + WPI}{1 + X} - 1$$

where:

WPI is the average of four quarters on the previous four quarters for NSW, all industries, all sectors, total hourly rates of pay excluding bonuses, expressed as a percentage.

X is the productivity adjustment, expressed as a percentage.

4.2.3 How IPART determined the value of the productivity adjustment

IPART considers that a productivity adjustment of 0.3 per cent for drivers is reasonable and achievable. This is roughly equivalent to drivers working one extra paid trip per 17 shifts.¹²

In considering the productivity adjustment for drivers, IPART considered the productivity growth achieved in the economy as a whole. This growth, as measured by the average increase in GDP per hour worked in 2007, was 0.7 per cent. IPART

¹² Assuming 15 paid trips per shift as indicated by the PwC survey.

took the view that drivers would not be able to make productivity improvements in line with a conservative estimate of what is achievable in the broader economy due to external factors that directly affect their work, including traffic congestion, speed limits and parking restrictions.

However, IPART took account of the comments in the ATDA's submission that there is some scope for productivity improvements. The ATDA noted that Premium taxis earn much higher revenue on a cents per kilometre basis than standard taxis, and suggested that the drivers of standard taxis should aim to improve their revenue to the Premium taxi level. The ATDA claimed that drivers should be able to 'modify existing work practices' to perform two extra jobs per shift, making additional revenue of \$10,000 per year in additional income. The ATDA stated that:

We are ready to do our share to lift the game. Those two extra trips a shift make all the difference. Technology is at hand to assist - GPS, on-line bookings, smarter payment systems.¹³

IPART notes that in general, networks impose higher standards on Premium taxi drivers, including a minimum number of years of experience and more stringent knowledge and customer service obligations. While Premium taxis tend to receive a higher number of bookings, IPART is of the view that at least some of their higher revenue is likely to result from the more efficient working practices of experienced drivers.

While there is clearly scope for drivers to make productivity improvements, IPART agrees with the views of the two taxi driver associations¹⁴ that the scope for drivers to make productivity improvements is likely to be constrained by traffic congestion, speed limits and parking restrictions. For these reasons, IPART considers that a productivity adjustment below the increase realised by the economy as a whole in 2007 is appropriate. (For further information on the economy-wide productivity gain, see Appendix B.)

4.3 LPG fuel

IPART's draft decision is to inflate the LPG fuel cost item using Fueltrac data on the price of LPG fuel in the NSW metropolitan regions (for the urban TCI) and the rest of NSW (for the country TCI) for the 12 months to the end of March 2008. This method is unchanged from IPART's 2007 review.

IPART calculated the average daily LPG price over this period, and compared this with the average daily LPG price over the 12 months to the end of March 2007. This approach results in a value for the inflator of 12.7 per cent in urban areas and 6.6 per cent in country areas.

¹³ ATDA submission, March 2008, p 35.

¹⁴ ATDA submission March 2008, p 18, NSWTA submission March 2008, p 10.

4.4 Other drivers' costs

IPART's draft decision is to inflate the other drivers' costs item by the change in the CPI. The value of this inflator is 1.9 per cent. This approach is consistent with the approach IPART used in the 2007 review, and the approach it uses to inflate other costs in other industries.

The CPI measure used is that for Sydney calculated as an average of four quarters. Please note that for the draft report, the average of the four quarters to December 2007 have been used. Therefore, the value of this inflator may change in the final report, when the average of the four quarters to March 2008 will be used.

4.5 Operators' salary equivalent

IPART's draft decision is to inflate the operators' salary equivalent cost item by the WPI, and to adjust the value of this inflator to account for productivity gains before calculating the change in the TCI. This approach, which is the same as the approach used to inflate the notional drivers' labour costs item, results in a value for this inflator of 3.2 per cent, based on a WPI of 3.8 per cent and a productivity adjustment of 0.6 per cent. To put this productivity gain into context, it is roughly equivalent to operators completing their weekly administration 4 minutes faster.¹⁵

IPART's rationale for using the WPI and adjusting the value of this inflator for productivity gains is explained in section 4.2 above.

In considering the size of the productivity adjustment to make to operators' labour costs, IPART considered the productivity growth achieved in the economy as a whole. This growth, as measured by the average increase in GDP per hour worked in 2007, was 0.7 per cent. IPART considered that operators should be able to make productivity improvements in line with a conservative estimate of what is achievable in the broader economy. All of the reasons for lower productivity identified in submissions relate to the productivity of drivers and not operators (see section 4.2.2). As a result, these factors do not support a reduced adjustment for operator productivity as they do for driver productivity. IPART also considered the ATDA's submission, which argued that more efficient rostering of taxis could ensure better utilisation of taxis on the road. The ATDA suggested that technological changes, such as an on-call driver database, could help improve the efficiency of rostering.¹⁶

As IPART did not receive information to suggest otherwise, it considers that it is reasonable to expect that operators can achieve productivity growth that is broadly in line with the productivity growth in the economy as a whole. (For further information on the economy-wide productivity gain, see Appendix B.)

¹⁵ Assuming operators spend 10 hours on administration per taxi per week.

¹⁶ ATDA submission, March 2008, p 35.

4.6 Maintenance costs

IPART's draft decision is to inflate the maintenance cost item by the 'motor vehicle repairs and servicing' expenditure class of the CPI. The value for this inflator is 2.4 per cent. Please note that for the draft report, the average of the four quarters to December 2007 have been used. Therefore, the value of this inflator may change in the final report, when the average of the four quarters to March 2008 will be used.

As Chapter 3 discussed, the maintenance costs item was previously two separate cost items: maintenance labour and vehicle parts and panels. For the 2007 review, maintenance labour was inflated by the WPI and vehicle parts and panels was inflated by the change in the motor vehicle 'parts and accessories' expenditure class of the CPI. Now that these cost items have been amalgamated, IPART considers that the 'repair and servicing' expenditure class of the CPI is a more appropriate inflator. This expenditure class includes costs of crash repairs, panel beating and the routine servicing of motor vehicles. In IPART's view, this is more appropriate than the 'parts and accessories' expenditure class, which includes the costs of individual parts and accessories, such as oil and tyres. In addition, the repair and servicing expenditure class of the CPI is consistent with IPART's inflator for maintenance costs in the Bus Industry Cost Index.

4.7 Plate lease costs

IPART's draft decision is to inflate the plate lease costs item by using quotes for leasing taxi licences provided by taxi networks. This results in a value of 10.7 per cent for the inflator, based on data for the eleven months to February 2008, compared to the corresponding period of the previous year. IPART considers that for this review, the information provided by the Taxi Council is the most reasonable estimate available for the change in plate lease costs. However, it would prefer to use inflators that are independently obtained and will investigate the options for obtaining information on lease cost movements from a non-industry source.

Operators can obtain a licence plate by either buying the plate outright, or by leasing the plate from an existing owner. Licence plate lease costs can therefore be incorporated into the TCI in two ways:

- ▼ Including a reasonable rate of return on the value of the asset. In practise, this involves applying an appropriate interest rate to the value of the licence plate. This reflects the opportunity cost of the operator owning the licence plate.
- ▼ Including the cost to the operator of leasing the plate from a licence owner.

Historically IPART has applied the rate of return method. However, the Issues Paper for the 2008 fare review expressed concern over the continued use of licence plate values to determine fares on the basis that the value of licence plates is influenced by the expected future income from it, which depends at least in part on the level of fares.

The NSW Taxi Council was the only stakeholder that commented on this issue. It does not support continuing the current approach of applying an interest rate to the change in actual licence plate values. While the Taxi Council did not consider that circularity was a significant problem, it noted that licence plate values have increased substantially in recent months and as a result considers that the rate of return approach is no longer a reasonable measure of changes in lease costs.

In theory, the choice between a rate of return on the licence plate value and the licence plate lease cost should make little difference, since the value of a licence plate and lease costs should be intimately related. The annual income from a licence plate is generated by leasing it to an operator. Therefore, so long as the yield on a taxi licence plate moves in line with the bond rate, the two measures should be broadly equivalent.

However, since the 2007 fare review, data provided by the Ministry of Transport indicates that the average licence plate transfer value has increased from \$291,614 to \$352,839, an increase of around 21 per cent. With the bond rate increasing by around 0.7 percentage points, this implies that the return on investment in a licence plate should have increased by around 35 per cent. But according to data provided by the Taxi Council of New South Wales, licence plate lease costs have increased by only 10.7 per cent, from \$24,626 to \$27,262.

This implies that the yield on taxi licence plates has fallen from 8.4 per cent to 7.7 per cent, despite the increase in the bond rate. The premium over the bond rate has therefore fallen from 2.2 percentage points to 0.7 percentage points. See Table 4.3.

Table 4.3 Comparison of movements in costs and yields

	2007	2008	Change %
Licence plate value (\$)	291,614	352,839	21.0
Bond rate (%) ^a	6.3	7.0	0.7
Implied lease cost (\$)	18,328	24,745	35.0
Actual lease cost (\$)	24,626	27,262	10.7
Implied yield (%) ^a	8.5	7.7	-0.7
Premium over bond rate (% point)	2.2	0.7	-1.5

^a The change is represented as a percentage point change.

The reason for this situation is unclear. The Taxi Council suggested that there has been a lot of speculative investment in licence plates in New South Wales recently. The departure of Macquarie Bank from the taxi market may also have led to a changed perception of the risk associated with owning a taxi licence plate, which manifested as an increase in the value of existing licence plates. Alternatively, the substantial increase in the value of licence plates in NSW may indicate a shortage of licence plates relative to demand for taxi services.

What is clear is that the method used to inflate licence plate-related costs in the TCI has a significant impact on the fare increase. IPART's Terms of Reference require it to consider the cost of providing taxi services. The TCI is designed to measure the change in costs incurred by drivers and operators in providing taxi services. IPART considers that it is therefore reasonable to use the method that most closely reflects the cost to operators. The Taxi Cost Survey undertaken by PwC indicated that typically operators lease their licence plates. Data requested from the Ministry of Transport confirms this, showing that 81 per cent of licences in Sydney are leased however, the proportion is much lower in other areas. Given the current divergence of lease costs and licence plate values, IPART is of the view that using the actual change in lease costs provided by the Taxi Council most closely reflects the actual costs incurred by operators. In the future, IPART will investigate whether lease cost information can be obtained from a non-industry source in order to ensure that the measure is as independent as possible.

IPART considers that the divergence is likely to be a short term issue. In the long run lease costs should be closely related to licence plate values. The current situation may correct itself by either a fall in plate values, an increase in lease costs or a combination of the two. If the higher plate values flow through to higher lease costs then IPART will be required to raise fares to reflect that outcome. One of the potential causes of the increase in licence plate values is a shortage of licences when compared to growth in demand for services. Given that there is no statutory limit or cap on the number of licences which may be issued, IPART considers that the Ministry of Transport (which administers taxi licensing arrangements) may wish to investigate this issue.

4.8 Insurance

IPART's draft decision is to inflate the insurance costs item using the insurance services sub group of the CPI, as it did for the 2007 review. The value of this inflator is 1.8 per cent. For the draft report, the average of the four quarters to December 2007 has been used. Therefore, the value of this inflator may change in the final report, when the average of the four quarters to March 2008 will be used.

4.9 Vehicle lease payments

IPART's draft decision is to inflate the vehicle lease payments cost item using the 'motor vehicles' expenditure class of the CPI, as it did for the 2007 review. The value of this inflator is 0.0 per cent. For the draft report, the average of the four quarters to December 2007 has been used. Therefore, the value of this inflator may change in the final report, when the average of the four quarters to March 2008 will be used.

4.10 Network fees

For both the urban and country TCI, IPART's draft decision is to inflate the network fees cost item by the actual change in a weighted average of the network fees for all urban networks. The value of this inflator is 4.0 per cent.

Ideally, IPART would like to use a weighted average of a representative sample of country network fees to inflate the network fees cost item in the country TCI. However, it considered that this was not possible this year because:

- ▼ country network fees are much more volatile than those of urban networks
- ▼ there is little correlation between movements in fees over different country towns
- ▼ it is likely that there is inconsistent reporting of country network fees
- ▼ country network fees are not priced in a competitive market and may not reflect efficient costs.

Given the current lack of reliable data for country areas, IPART considers that there is little option but to use the inflator for urban network fees at this stage. IPART considers that if the reporting deficiencies in country networks can be overcome, IPART will reconsider using actual country network data.

IPART acknowledges the efforts being made by the Taxi Council to improve the reporting of network fees and notes that once the data becomes sufficiently reliable there is no reason that it should not be used in future years. For this reason, IPART intends to meet with the Country Taxi Operators' Association to assist in improving the reporting of network fees.

4.11 Other operators' costs

IPART's draft decision is to inflate the other operators' costs item by the change in the CPI. The value of this inflator is 1.9 per cent. This approach is consistent with the approach IPART used in the 2007 review, and the approach it uses to inflate other costs in other industries. It is also consistent with the approach used to inflate other drivers' costs in this review.

The CPI measure used is that for Sydney calculated as an average of four quarters. Please note that for the draft report, the average of the four quarters to December 2007 has been used. Therefore, the value of this inflator may change in the final report, when the average of the four quarters to March 2008 will be used.

5 Required average increase in fares and approach for applying this increase to fare components

IPART used the draft decisions on the weightings of the cost items in the TCI, the inflators to be used to inflate each cost item, and the values of those inflators discussed in Chapters 3 and 4 to calculate the overall change in the cost of providing taxi services since 1 July 2007. It then determined the average fare increase required to recover this overall cost change, taking into account the fact that last year it recommended fare increases higher than the overall cost change measured by the TCI to compensate for the fact that the 2007 fare increases were implemented later than 1 July.

In addition, IPART considered what method it should use to ensure that the required average increase in fares is appropriately translated into recommended increases in individual fare components. It also reviewed the assumptions about what constitutes the 'average fare', which it uses to do this.

5.1 IPART's draft decisions

IPART's draft decision is that fares need to increase by an average of 3.8 per cent in urban areas, and 3.2 per cent in country areas, to cover the estimated overall increase in the costs of providing taxi services over the period 1 July 2007 to 30 June 2008.

These required fare increases are based on an overall increase in the cost of providing taxi services of 4.7 per cent in urban areas, and 4.2 per cent in country areas, as measured by the TCI. Ordinarily, IPART's draft decision on the required increase in the average fare would be the same as the overall increase in costs measured by the TCI. However, this year, the increase has been adjusted down to take account of the fact that fare increases occurred in late August 2007 (at a higher value than if they had been implemented at 1 July).

In addition, IPART's draft decision is that it should retain the 'average fare' approach in translating the required average change in fares to recommended increases in individual fare components, but should make a number of changes to the assumptions underlying the 'average fare' for both urban and country areas.

The following sections explain these draft decisions in more detail.

5.2 The overall change in costs measured by the TCI

IPART calculates that the urban TCI has increased by 4.7 per cent, and the country TCI increased by 4.2 per cent. These increases represent an estimate of the increase in the cost of providing typical taxi services, from 1 July 2007 to 30 June 2008.

Tables 5.1 and 5.2 show how the increases in the urban and country TCI were calculated.

Table 5.1 Urban Taxi Cost Index calculation

	2007 costs	2007 weight	Change in inflator	2008 costs	Contribution to index
	\$	%	%	\$	%
Driver costs					
Notional drivers' labour costs	99,435	50.1	3.5	102,928	1.8
LPG fuel	13,712	6.9	12.7	15,451	0.9
Other drivers' costs	4,997	2.5	1.9	5,092	0.0
Total drivers' costs	118,144	59.5		123,471	
Operator costs					
Operators' salary equivalent	12,900	6.5	3.2	13,314	0.2
Maintenance costs	9,886	5.0	2.4	10,122	0.1
Plate lease costs	25,000	12.6	10.7	27,676	1.3
Insurance	14,958	7.5	1.8	15,227	0.1
Vehicle lease payments	4,107	2.1	0.0	4,105	0.0
Network fees	6,564	3.3	4.0	6,824	0.1
Other operators' costs	6,981	3.5	1.9	7,115	0.1
Total operators' costs	80,396	40.5		84,383	
Total costs	198,540	100.0		207,854	4.7

Note: Columns may not add due to rounding.

5 Required average increase in fares and approach for applying this increase to fare components

Table 5.2 Country Taxi Cost Index calculation

	2007 costs	2007 weight	Change in inflator	2008 costs	Contribution to index
	\$	%	%	\$	%
Driver costs					
Notional drivers' labour costs	100,965	53.6	3.5	104,512	1.9
LPG fuel	12,273	6.5	6.6	13,082	0.4
Other drivers' costs	3,163	1.7	1.9	3,223	0.0
Total drivers' costs	116,401	61.8		120,817	
Operator costs					
Operators' salary equivalent	13,099	7.0	3.2	13,519	0.2
Maintenance costs	8,029	4.3	2.4	8,222	0.1
Plate lease costs	19,700	10.5	10.7	21,809	1.1
Insurance	8,521	4.5	1.8	8,675	0.1
Vehicle lease payments	4,107	2.2	0.0	4,105	0.0
Network fees	9,250	4.9	4.0	9,616	0.2
Other operators' costs	9,319	4.9	1.9	9,497	0.1
Total operators' costs	72,025	38.2		75,441	
Total costs	188,426	100.0		196,258	4.2

Note: Columns may not add due to rounding.

5.3 Average increase in fares required to recover overall increase in costs

Ordinarily, the fare increase required to recover the overall cost increase measured by the TCI is equal to the change in the TCI (including productivity adjustment). However, in 2007 fares were not adjusted at 1 July but were in fact increased on 27 August. In making its recommendations for the 2007 fare review, IPART anticipated the late implementation of the fare change and recommended that fares be increased above the rate suggested by the increase in the TCI, to compensate for the late implementation. The adjustment made to fare changes in 2007 now needs to be corrected, to avoid double-counting of the cost increases.

IPART considers that the simplest way to do this is to adjust the required average increase in fares indicated by the TCI in 2008 (which represents the percentage increase to the average fare at 1 July 2007 required to recover cost increases over the period 1 July 2007 and 30 June 2008), so it reflects the percentage increase to the average fare at 27 August 2007 required to cover the cost increases over this same period.

Table 5.3 compares the average fares at 1 July and 27 August 2007, and percentage fare increases required to recover cost increases measured by the TCI in 2008.

Table 5.3 Average fares at 1 July and 27 August 2007, and average fare increases required to recover costs measured by the TCI since 1 July 2007

	Urban	Country
Value of average fare required at 1 July 2008	\$18.85	\$12.23
Value of average fare specified at 1 July 2007	\$18.00	\$11.75
Change to fares at 1 July 2007 required to compensate for cost increases since 1 July 2007	4.7%	4.2%
Value of average fare specified at 27 August 2007	\$18.16	\$11.85
Change to current fares needed to compensate for cost increases since 1 July 2007	3.8%	3.2%

Note: Average fares under current assumptions, as specified by IPART for the 2007 review are shown above. Figures have been rounded.

Source: IPART, *Maximum fares for taxis in NSW for 2007/08*, July 2007, pp 25-26.

IPART's draft decision is to use the full adjusted required average fare increases of 3.8 per cent for urban areas and 3.2 per cent for country areas in determining its fare recommendations for 2008. In coming to this draft decision, IPART has taken into account the impact of the overall fare increases on key stakeholders and the reported service quality and performance standards of taxis. A summary of service quality statistics is contained in Appendix C.

5.4 Method for applying required average fare increase to fare components

Historically, IPART has used the concept of a specified 'average fare' for urban and country taxis to translate the required average increase in fares into recommendations for increasing the individual components of fares (such as flag fall, distance rates, booking fees etc). This translation involves exercising its judgement in changing the value of individual fare components, to ensure that the 'average fare' increases in line with the overall percentage change in costs measured by the productivity-adjusted TCI.

If the 'average fare' IPART uses accurately reflects the true average, then this method should result in changes in fare revenue that reflect the average required change. However, one of the shortcomings of this approach is that there will always be some fare components, such as the maxi taxi surcharge, that will fall outside the definition of the average fare. For fare components outside the definition, IPART exercises its discretion as there is no consistent basis for recommending changes to those fare components.

The Issues Paper for this review raised an alternative approach of using a basket of typical fares rather than a single 'average fare' to ensure that all fare components are captured in the analysis.¹⁷ In theory, using more than one fare would provide a better means of ensuring that the overall increase required is appropriately translated into fares, much like a weighted average price cap approach. However, this is only the case where there is sufficient information to allow IPART to 'weight' the various fares or fare components. Without weighting the fares, it is not possible to estimate what impact fare increases would have on overall fare revenue. Submissions did not provide any indication of typical fares that could be used for this purpose.

Without additional information on either typical fares or weights that could be applied to them, there is not enough information to implement an alternative approach. Therefore, IPART's draft decision is to retain the average fare approach.

5.5 Definition of the 'average fare'

The average fare assumptions try to mirror the average fare paid by passengers. The average fare is currently based on assumptions for an 'average fare' proposed by the NSW Taxi Council and used by the then Department of Transport to calculate a fare adjustment for GST.¹⁸

Having considered the available information, IPART's draft decision is to make a number of changes to the assumptions used to calculate the average fare for both urban and country areas. Table 5.4 summarises IPART's draft decisions on the assumptions about the average fare it will use in 2008, and compares them to the assumptions used in 2007. For comparison purposes, the table also sets out the impact of adopting new assumptions on the value of the average fare using the maximum fares that are currently in place.

Table 5.4 IPART's draft decisions on average fare assumptions compared to the current assumptions

	Urban Current	Urban Draft decision	Country Current	Country Draft decision
Distance travelled	7 kms	7 kms	3 kms	5 kms
Waiting time	3 mins	5 mins	3 mins	3 mins
Share of trips that are phone bookings	20%	20%	50%	65%
Share of trips that are covered by night surcharge	-	15%	-	15%
Value under current fares	\$18.16	\$20.08	\$11.85	\$15.93

¹⁷ IPART, *2008 Review of Taxi Fares in NSW – Issues Paper*, p 35.

¹⁸ NSW Taxi Council submission to IPART, April 2001, p 9 and IPART, *Report on NSW Taxi Fares*, July 2001, p 50.

In making its draft decisions, IPART considered data from:

- ▼ the Transport Data Centre's (TDC) Household Travel Survey (2007 release)
- ▼ the PwC taxi cost survey (2007)
- ▼ the Australian Taxi Drivers' Association's (ATDA) submissions (2007 and 2008)
- ▼ the NSW Taxi Drivers' Association's (NSWTDA) submissions (2006 and 2007)
- ▼ the NSW Taxi Council's submission (2008).

The TDC's Household Travel Survey provides information on taxi trips made by a sample of 5,000 households in the greater metropolitan area. Table 5.5 sets out the relevant information obtained from the TDC.

Table 5.5 Average trip in the greater metropolitan area – Household Travel Survey

	Average distance	Average time
	Kilometres	Minutes
Sydney	7.3	19.5
Central Coast	3.9	14.8
Blue Mountains	12.1	18.8
Newcastle	5.2	14.0
Wollongong	3.6	9.2
Other	3.5	10.2
Average for the greater metro	6.8	18.3

Source: Transport Data Centre, 2007 release.

While the Household Travel Survey provides recent and independent estimates for the average fare, it focuses on households within the greater metropolitan area. As a result it does not capture other segments of the market, for example, tourist travel and business travel by passengers living in other areas. Nevertheless, it does provide a useful source of information, and is the only available source that is disaggregated into regional levels, showing the variation in trips undertaken.

The PwC survey also provides useful information. It is the only source that provides estimates for country as well as urban areas. However, the survey results on waiting time have not been used due to problems with the interpretation of the relevant survey question.¹⁹ The other information considered by IPART was obtained from submissions. While the ATDA and NSWTDA both provided data obtained from meter readings, these readings are limited to a small sample of taxis from Alexandria. While IPART has no reason to believe that the information provided is not reliable, it is not possible to verify that the data provided is representative.

¹⁹ There is confusion about whether respondents interpreted the question on waiting time to refer to time spent without a passenger. Very high responses suggest that the survey data is unreliable on this issue and this is also implied by submissions from the ATDA and NSW Taxi Council.

As there is not any single source of information that provides a robust estimate, all information has been used to inform the analysis. Table 5.6 summarises the information considered.

Table 5.6 Average trip in urban areas

	Year	Distance ^a	Waiting time	Share of phone bookings
		Km	Minutes	%
ATDA Submission	2008	6.1	4.8	17
Taxi Council Submission	2008	7.0	n/a	n/a
Transport Data Centre	2007	6.8	5.5 ^b	31
Taxi Cost survey (median)	2007	7.7	unreliable	20
Taxi Cost Survey (mean)	2007	7.2	unreliable	29
ATDA Data	2007	8.4	n/a	20
ATDA Submission	2007	5.5	5.4	14
NSWTDA Submission	2007	8.3	5.0	27 ^c
ATDA submission	2006	6.1	4.8	17%
High		8.4	5.5	31
Low		5.5	4.8	14
Mean		7.0	5.1	21.9
Median		7.0	5.0	20.0

^a In some cases these have been calculated by dividing the number of paid kilometres per shift by the number of passenger trips.

^b Estimated by IPART at 30% of total trip time – the average proportion of total trip time reported by ATDA 2008 and NSWTDA 2006 from available meter data.

^c Represents rounded midpoint of the figures given (25 and 28 per cent).

Note: The PwC taxi cost survey asked for 'waiting time' but it is not clear whether this was designed to reflect waiting time with a passenger or downtime (time spent waiting for a passenger).

5.5.1 Distance travelled

IPART's draft decision is that no change to the distance assumed in the average fare calculation for urban areas is necessary. The mean and median of all estimates available suggest that the 7 kilometres currently used is reasonable.

In country areas, the limited information available suggests that the 3 kilometre distance currently used is too low. The PwC survey is the only country estimate available. The survey showed a distance per trip of 5.5 kilometres (survey median) or 5.9 kilometres (survey mean) in country areas.²⁰ The Taxi Council supports the use of the survey data for average kilometres travelled in country areas. Data from the TDC suggests that less urbanised areas in the household travel survey (for example, central coast and Wollongong) tended to show shorter distances than the more urbanised parts of the metropolitan area (such as Sydney), suggesting that it is

²⁰ PricewaterhouseCoopers, *Review of Weightings in the Taxi Cost Model*, January 2008.

reasonable for the country average fare to include a lower distance travelled than the urban average fare. While this was not uniform, the less urbanised areas tended to involve trips of 3 to 4 kilometres. No submissions commented on the average distance in country areas.

Given the available information, IPART's draft decision is to retain 7 km as the distance included in the urban average fare, and to increase the distance included in the average country fare to 5 km.

5.5.2 Waiting time

The waiting time component of the fare applies when passengers are in the taxi but the speed of the taxi is below a specified threshold (currently around 26km/hr). For example, the waiting time rate would be charged when the taxi is at traffic lights or travelling in heavy traffic congestion. There is less information available on waiting time than on the other components of the average fare and many of the available estimates do not include specific waiting time information. There is also some confusion of terminology with drivers who regard waiting time as time spent waiting for a passenger.

The TDC information, arguably the most independent source of recent average fare information, does not include an estimate of the waiting time per trip. However, it does estimate the average trip time. Information from the ATDA in 2008 and the NSWTD in 2006 suggests that waiting time is around 30 per cent of total trip time. Applying this assumption to the TDC information gives a waiting time estimate of 5.5 minutes. This estimate is slightly above the other estimates obtained. However, the available estimates of waiting time are still fairly consistent, ranging from 4.8 to 5.5, with a mean and median very close to 5 minutes. Table 5.6 summarises the range of available estimates.

All estimates are significantly above the 3 minutes currently assumed for urban areas. Waiting time estimates could be expected to change over time. The nature of fare changes themselves have a direct impact on the amount of waiting time as the threshold speed (recalculated each year) is the basis for the definition. These higher figures are consistent with anecdotal evidence that waiting time is increasing as a result of traffic congestion.²¹

IPART did not receive any submissions with waiting time information for country areas and without the results of the PwC survey there are no direct estimates available. The average trip time in country areas is much shorter than the average in urban areas and congestion is unlikely to be a significant issue in most country towns. As a result, the amount of waiting time could be expected to be less on average than in urban areas.

²¹ See for example, NSWTC submission, March 2008, p 25.

Given the above, IPART's draft decision is to increase the waiting time assumed in the urban average fare from 3 minutes to 5 minutes, and to maintain the waiting time assumed in the country average fare at 3 minutes.

5.5.3 Share of phone bookings

For the urban average fare, the share of phone bookings currently assumed in the average fare calculation is 20 per cent. This is the result of two previous downward revisions. No change has been made to the country average fare, which remains at 50 per cent.

For urban areas, the available estimates are within the range of 14 to 31 per cent. The mean and median of the estimates are both close to the 20 per cent currently assumed. The TDC's Household Travel Survey suggests that the figure is higher, at around 31.4 per cent. Estimates provided by the taxi drivers' associations are generally slightly below 20 per cent. It may be that the reason for the discrepancy between these estimates is that the TDC data only captures household usage and does not capture tourist and some business segments of the market.

In country areas, the PwC survey suggests that the share of phone booked trips is 64 per cent (survey median) and 65 per cent (survey mean). Both these estimates are higher than the current assumption of 50 per cent, and are well above the levels suggested by the survey results for urban areas. The NSW Taxi Council suggests that these results are realistic, and submits that a figure above 50 per cent should be used.²² IPART asked a sample of country network operators whether they considered 65 per cent a reasonable assumption. All networks who responded with information stated that 65 per cent should be considered a lower bound, with the actual proportion of trips booked being around the 70 per cent mark.

Based on the information available, IPART's draft decision on the percentage of trips assumed to be phone bookings is to maintain the assumption for urban areas at 20 per cent, and increase the assumption for country areas to 65 per cent as suggested by the PwC survey.

5.5.4 Extending the assumptions to include other fare components

Currently the average fare calculation does not incorporate all fare components. The following fare components are excluded:

- ▼ night time surcharge
- ▼ holiday surcharge (equal to the night surcharge but applies on Sundays and public holidays in the country only)
- ▼ luggage fee

²² NSW Taxi Council submission, March 2008.

- ▼ maxi-taxi surcharge
- ▼ distance charge tariff II (country only).

Some of these charges do not lend themselves to inclusion in the calculation as they are intermittently charged. Others do not apply to standard (or typical) taxis (for example, the maxi taxi surcharge).

However, the night time surcharge can be included in the calculation based on the percentage of trips that are made under the surcharge. This is similar to the inclusion of the booking fee in the calculation (where it is assumed 20 per cent of urban taxi trips are booked). The Sunday and public holiday surcharge in country areas can also be included in this way.

There is little information regarding the proportion of trips for which the night surcharge applies and no information on the Sunday and public holiday surcharge. The ATDA submitted meter data showing that revenue from the night time surcharge was around 5 per cent of fares collected. Based on the total revenue from distance charges provided, this implies that a significant proportion of trips are done at night time rates.

The Victorian Essential Services Commission released an interim report on taxi fares in Victoria on 19 March 2008. In this report the ESC assumes that 15 per cent of trips in Victoria are made at the night time rate, and this proportion is factored into the average fare calculation. In Victoria, the hours that the late night surcharge (metropolitan zone) operates are midnight to 5am, and the late night extra (outer suburban zone) operates midnight to 6am - both are shorter than the NSW operation, which runs from 10pm to 6am.

As there is limited information available on the proportion of trips that attract the night-time surcharge, IPART's draft decision is to include an assumption about this surcharge into the average fare, and to adopt a conservative assumption of 15 per cent of trips for this review. IPART's draft decision is that no additional allowance be made for the Sunday and public holiday surcharge in the country average fare, as the proportion of travel at night may be less in country areas.

IPART seeks comments on the following:

- 1 For the purpose of defining an 'average fare', IPART seeks comment on the percentage of paid trips that are made at times when the night time and holiday surcharges apply.

6 Draft recommendations on fare components

IPART has made draft decisions to change some of the components of the 'average fare', and draft recommendations on the value of these components that ensure that the 'average fare' changes by the average percentage fare increase required to recover the costs in the TCI. It has also considered the impact of its draft recommendations on fares and stakeholders.

The section below summarises IPART's draft decisions and recommendations on the fare components. The subsequent sections discuss IPART's considerations and analysis in making these decisions and recommendations, the impact of the draft recommendations on fares for a variety of trips, and the implications of these recommendations on stakeholders.

6.1 IPART's draft decisions and draft recommendations

Draft recommendation

- 1 That maximum fares for taxis in urban and country areas should consist of the components and values shown on Table 6.1.
- 2 That taxis should no longer be entitled to charge a luggage fee.
- 3 That taxis should no longer be entitled to charge passengers the return-trip toll on northbound crossings of Sydney Harbour.

Table 6.1 IPART's draft recommendations on fare components from 1 July 2008

	Urban	Country
Flag fall (\$)	\$3.10	\$3.60
Distance charge/Tariff I (\$ per km)	\$1.85	\$1.87
Distance Tariff II (\$ per km) ^a	n/a	\$2.65
Night-time surcharge	20% on top of distance rate	20% on top of distance rate
Waiting time (\$ per hour)	\$47.72	\$47.94
Waiting time threshold speed (km)	26 km per hour	26 km per hour
Booking fee (\$)	\$2.00	\$1.25
Maxi cab surcharge ^b	50% on top of fare	50% on top of fare

^a Applies to each kilometre after the first 12km in country areas, first 12km are at the normal distance charge.

^b No surcharge applies where the maxi-cab is hired from a taxi zone or hailed on the street to carry up to 5 passengers.

In formulating these draft recommendations, IPART made draft decisions:

- ▼ to increase the booking fee by 25 per cent
- ▼ to largely retain the current relativities between other fare components
- ▼ not to recommend the introduction of a charge for the use of children's car seats
- ▼ not to recommend an extension of the hours of the night time surcharge
- ▼ to seek comment on whether there is a case for an additional surcharge for taxis that are required to carry a large volume of goods.

6.2 IPART's considerations and analysis

In coming to its draft recommendations on the components of the average fare, and the value of these components for 2008, IPART considered whether the relativities between the current fare components are providing the correct incentives to the industry. In their submissions, stakeholders largely supported the current relativities and cautioned against making significant changes. The Taxi Council suggested that the overall increase in fares should be applied as evenly as possible to each of the fare components, so as not to change the relativities between different fare components in any substantial way. The ATDA requested numerous changes to current fares, while retaining relativities similar to those currently in place.²³

IPART also considered three specific changes to the current maximum fares requested in submissions:

- ▼ the Taxi Council requested the introduction of a \$5 charge for passengers requesting a child car seat
- ▼ the ATDA requested that the night surcharge be applied to both the waiting time charge and distance rate, and that IPART consider allowing the surcharge on Sundays and public holidays to be applied in urban areas
- ▼ an individual asked IPART to consider whether allowing drivers to charge for a return toll on the Sydney Harbour Bridge and Tunnel remains appropriate.

Given the support for the current fare structure, IPART decided not to make substantial changes in the relativities between fare components. In most cases, the current value of the component was increased by the required average increase in fares (3.8 per cent in urban areas, and 3.2 per cent in country areas, as discussed in section 5.1) then rounded if necessary. The exceptions are the booking fee component, which was increased by 25 per cent, and the luggage fee, which was removed entirely.

The distance rate (and where necessary the waiting time charge) was used as a balancing item – ie, it was increased by the amount required to ensure that the 'average fare' increased by the required average increase. IPART's considerations in

²³ ATDA submission, March 2008.

relation to the individual fare components (other than the distance rate) and the requests from stakeholders are discussed in more detail below.

6.2.1 Flag fall

Some stakeholders suggested that the flag fall component should increase. The ATDA submitted that the current flag fall is sufficient to encourage short journeys, but an additional 50 cents should be added to allow for the extra time involved in processing credit card transactions.²⁴ The Taxi Council also submitted that the current relativities are appropriate, and noted that the flag fall charge is designed to provide compensation for the time spent collecting the fare, including processing electronic transactions etc, and generally for being available for hire.

IPART's draft recommendation is that the flag fall component be increased by the average required increase, then rounded to the nearest 10 cents. In both urban and country areas, this results in an increase in the flag fall of 10 cents.

6.2.2 Night-time surcharge

Currently the night-time surcharge is added to the distance rate, for trips between 10pm and 6am. It provides extra compensation to drivers for working unsociable hours, and the additional safety risks involved with night-time driving.

The ATDA proposed that this surcharge also apply to the waiting time charge, and that IPART consider extending the times at which the surcharge applies to include all hours on Sundays and public holidays in urban areas. However, the ATDA did not provide adequate information to support either of these requests. Further, if IPART were minded to extend the surcharge, other fare components would need to reduce so that the average fare changes in line with the change in the TCI. For these reasons, IPART does not consider that it can recommend changes to the application of the night time surcharge at this time.

IPART's draft recommendation is that the night-time surcharge remains at the current level of 20 per cent on top of the distance rate.

6.2.3 Waiting time

Both the Taxi Council and the ATDA submitted that waiting time cannot simply reflect the actual cost of driver's labour, as it also needs to cover costs of time spent without a passenger (dead time). In addition, they suggested that the current waiting time charge is well accepted by passengers and a change would be confusing.

²⁴ Although the fare charged to passengers for electronic transactions includes a 10 per cent surcharge, drivers continue to receive only the value of the fare as the surcharge is retained by Cabcharge (or other provider of electronic payment equipment).

Estimates suggest that around half of the time spent in the taxi is without a paying passenger. Fares need to be set to cover all costs of providing a taxi service and this includes dead time. It is necessary to have some dead time in order that sufficient taxis are available for hire when needed. The waiting time threshold is set to ensure that minimum costs are covered and that distance rates will always at least compensate drivers at an amount equivalent to waiting time. The waiting time represents a floor for driver earnings. The ATDA suggested that the appropriate floor should be closer to \$60 an hour, but proposed an increase in the rate from \$46.20 to \$50.²⁵

Waiting time currently makes up a significant proportion of drivers' income from driving: around 35 per cent (excluding flag fall).²⁶ On the information provided by the taxi drivers' associations, waiting time is around 30 per cent of total trip time, and around 15 per cent of total shift time. The information also suggests that the average amount of waiting time per trip is increasing.

A reduction in the waiting time charge would reduce the incentive to pick up passengers in wheelchairs, as waiting time is charged while the driver is loading the passenger. Submissions noted that it would also make drivers more likely to avoid driving taxis in peak times.

Given the above, IPART's draft recommendation on the waiting time charge (in \$ per hour) has been increased by roughly the required average increase in fares. This results in an increase in this charge of around \$1.50 per hour for urban taxis (to \$47.72) and around 70 cents per hour for country taxis (to \$47.91).

6.2.4 Waiting time threshold speed

Stakeholders also supported the retention of the current approach to calculating the threshold speed at which waiting time commences (waiting time rate in \$/hr divided by distance charge in \$/km). For this reason, IPART has not proposed a change to this approach. However, IPART does consider that for ease of understanding, the threshold should be reported to the nearest whole kilometre. Therefore, its draft recommendation is that the threshold speed be 26km/hr for both urban and country taxis, which is slightly higher than the current threshold speeds of 25.88 km/hr in urban areas and 25.52km/hr in country areas.

6.2.5 Booking fee

The ATDA submitted that the booking fee is designed to cover the cost of 'dead running' to get to the pick-up point, and that the current fee of \$1.60 is not sufficient to cover this cost, plus a phone call to the passenger on arrival, especially given the ATDA's estimate that one in eight passengers does not show to accept the booking.

²⁵ ATDA submission, March 2007, p 10.

²⁶ ATDA submission, May 2007, p 14.

The ATDA requested that the phone booking fee be increased by around 120 per cent to \$3.50.²⁷

Similarly at the public hearing there were calls from other driver representatives to improve the incentives associated with phone bookings:

The booking fees of \$1.60 are just outrageously small. ... The booking fee of \$1.60 in no way recognises the dead running costs of the journey to the pick-up point, and for that reason the service delivery point drivers to passenger travels is really badly skewed.

... drivers are not being rewarded to go and pick up a person at a private home when they can queue up at a local pub and just, without any dead kilometres, wait for the fare to come out and if you want people to get those radio bookings completed, it's your responsibility to make those radio bookings viable and attractive.²⁸

However, NCOSS submitted that increasing the fixed component of journeys is likely to have an impact on passengers with mobility challenges, who use taxis to access local services. Other stakeholders confirmed that passengers in wheelchairs typically pre-book all their taxi trips.

IPART considers that in order to improve the incentives for drivers to pick-up passengers who make a booking there is a case for increasing the relative importance of the booking fee. Drivers must pay for the fuel costs of getting to the pick-up point, as well as for the time involved and a phone call on approach if required. The KPI data provided by the Ministry of Transport confirms that around one in nine passengers who book a taxi do not show up to collect it²⁹ and IPART agrees that drivers also need to be compensated for the costs associated with attending these bookings.

IPART considers that the current \$1.60 is unlikely to fully cover the costs associated with phone bookings. However, given the significant impact on less mobile and lower income passengers, IPART does not support the large increase proposed by ATDA. Therefore, IPART's draft recommendation is that the booking fee component be increased by 25 per cent. In urban areas, this results in an increase in this fee from \$1.60 to \$2.00. In country areas, it results in an increase from \$1.00 to \$1.25.

IPART accepts that the increase in the booking fee will have a larger impact on passengers who book a taxi to travel short distances. However, because fare components are varied to ensure that the average fare increases by the overall increase in costs, this larger increase in the booking fee means that increases in other fare components (flag fall, waiting time and the distance rate) are lower than they would be if the booking fee was increased in line with the overall change in costs. As the flag fall and waiting time are also important components of the fare for less mobile passengers travelling short distances, the impact of the higher booking fee on these passengers will be offset to some extent.

²⁷ ATDA submission, March 2008.

²⁸ Ernie Mollenhauer (Treasurer of the NSW Taxi Drivers' Association) at IPART Public Hearing, 11 March 2008, p 43.

²⁹ The number of passenger 'no shows' was 8.8% of bookings required and 10.9% of jobs accepted.

6.2.6 Maxi cab surcharge

The maxi cab surcharge applies where a maxi cab is hired except where it is hired from a taxi zone or hailed on the street to carry up to 5 passengers or as a multiple hiring.

IPART's draft recommendation is that this surcharge remain at the current level, which is 50 per cent to be applied on top of the standard fare.

6.2.7 Luggage fees

Drivers have a legal obligation to give reasonable assistance to passengers to load and remove their luggage.³⁰ Currently, drivers can charge a luggage fee for luggage weighing over 25 kilograms. This fee is designed to compensate drivers for loading time and increased fuel consumption associated with the heavier load. The value of this fee is 10 cents for each subsequent 25 kilograms over the initial 25 kilograms, or part thereof, up to a maximum of 55 cents.

In its Issues Paper, IPART noted that with no means of weighing luggage, the weight-based charge appears to be impractical. In addition, the costs associated with loading luggage for the vast majority of passengers are expected to be minimal – and even if they were significant on occasion, the fee is currently capped at such a small value that it would not go a long way to compensating the driver for the additional time. Furthermore, it makes little sense to charge an additional fee to cover the cost of additional fuel used as a result of the weight of luggage when fees do not apply for additional passengers.

The ATDA supported the removal of the current luggage fees stating that:

... these are not even worth consideration. The maximum 55 cents is far more likely to be picked up as tip to a co-operative and helpful driver than as a chargeable fee.³¹

However, the ATDA suggested that where taxis are primarily hired to transport goods, they should be permitted to use the maxi taxi surcharge (currently 50 per cent on top of the standard fare). NCOSS also supported the removal of the luggage fee, and agreed that a weight-based charge where there is no capacity to weigh luggage is impractical. However, the Taxi Council argued that the charge must either be retained or drivers must be compensated for its removal.

Given the difficulties with accurate charging, the small value of the luggage fee, and stakeholder comments, IPART has made a draft recommendation to remove the luggage fee. While IPART agrees in theory that its removal should be compensated for, there are no statistics on how often the luggage fee is charged or able to be

³⁰ Clause 154(4) of the *Passenger Transport Regulation 2007* states that the driver of a taxi-cab must afford every reasonable assistance in loading and removing luggage or goods.

³¹ ATDA submission, March 2008, p 10.

charged. Given the small value of the luggage fee (maximum 55 cents), it is unlikely that the overall loss in revenue would be significant.

In relation to the ATDA's proposal that taxis should be able to apply the maxi taxi surcharge where a taxi is being used primarily to transport goods, IPART considers that drivers should be able to refuse such hirings. Where a passenger requests such a service, this should be at a rate negotiated between passenger and driver for the use of that vehicle in what is essentially a non-taxi capacity and that maximum taxi fares should not apply.

The *Passenger Transport Regulation 2007* obliges drivers to accept all hirings unless the goods are unsafe, are of such a size or dimension that they cannot be accommodated without inconvenience or danger to other passengers or to the driver or, would cause inconvenience to other passengers or to the driver.³² IPART is seeking stakeholder's views on whether a surcharge is supported where taxis are required to transport goods and what would be an appropriate level for the surcharge.

IPART seeks comments on the following:

- 2 Whether taxis should be entitled to apply a surcharge on the standard fare for hirings that primarily involve the transportation of goods, and if so, what is the appropriate level for this surcharge, and in what circumstances should it apply.

6.2.8 Additional charge for children's car seats

The Taxi Council requested the introduction of a \$5 charge where passengers request a child seat. The charge is designed to cover the costs involved in cleaning and storing (including lost luggage space) the seat, and the driver time to fit and remove the seat. The charge represents 6.5 minutes of a driver's time, which the Taxi Council submits is the approximate cost involved. The Taxi Council also submits that passengers could avoid the charge by providing their own child seat. No other stakeholders commented on this suggestion. However, the Minister for Transport issued a press release in relation to media coverage of the issue stating that the Government does not support the introduction of such a fee.

IPART notes that it is illegal for a child to travel in a taxi without an approved child restraint. Currently there are regulations requiring all WATs to have baby capsules and all authorised networks to have 10 per cent of their taxis fitted with capsules.³³

IPART considers that there is not a strong argument that the time spent fitting child restraints is not compensated for. For all taxis, hiring commences when the driver arrives at the passenger's destination and informs the passenger that the taxi is waiting. Drivers may start the meter at this time. Most passengers are unaffected by this regulation as they enter the taxi soon after being notified of its arrival. For passengers in wheelchairs, the regulation provides the driver with compensation

³² However, the current weight limit on baggage that may be carried in the passenger area is 25kg.

³³ *Passenger Transport Regulation 2007*, cl108(b) and cl176.

while the passenger is being loaded. Similarly, it provides the driver with compensation while the child car seat is being installed. As the level of the waiting time charge is substantially higher than the estimated labour costs of the driver, this should provide adequate compensation to the driver for the estimated 6.5 minutes of labour involved and the cost of cleaning and maintaining the car seat.

In most cases, it is likely to be impractical for passengers to bring their own child car seat with them in order to avoid the \$5 charge. Even if some passengers were able to do this, the regulations continue to require taxis to have sufficient restraints available and drivers would still be responsible for ensuring that the restraint is correctly installed. These costs cannot be eliminated by passengers bringing their own seats.

Therefore, IPART's draft decision is not to recommend the introduction of a \$5 fee for the provision of a children's car seat.

6.2.9 Return toll on northbound Sydney harbour crossings

A submission from an individual taxi passenger requested that IPART consider whether it remains appropriate to continue to allow a toll to be charged on northbound Sydney Harbour crossings.³⁴ This was not an issue that was raised in the Issues Paper, nor have other submissions commented on it. However, IPART can see no reason why a return toll should be payable on Sydney Harbour crossings when it is not payable on other toll roads. The charging of the return harbour toll appears to have been introduced to compensate drivers for the toll on the return trip. IPART's view is that drivers are no less likely to obtain a return trip from the north Sydney business district than from any other area's toll (for example, following a trip to a Western Sydney suburb on the M4 motorway).

Therefore, IPART's draft recommendation is that taxis no longer be entitled to charge a return toll on northbound crossings of Sydney Harbour.

6.3 Impact of the fare increases on stakeholders

In making its recommendations, IPART has considered the impact of its recommended increase to maximum taxi fares for all stakeholders including taxi industry participants, taxi passengers, the environment and the government. The sections below summarise the impact of the draft recommendations on the average fare, and a variety of trips. The subsequent sections discuss the implications of these fare increases on stakeholders.

³⁴ Submission from W Geddes, 25 March 2008.

6.3.1 Changes in fare components compared with current fares

Tables 6.2 and 6.3 show the changes that passengers (and drivers) will actually see, as they compare the current fares (from August 2007) to the recommended fares (from 1 July 2008).

Table 6.2 Recommended urban fares and change compared to current fares

	Current	Recommended	Increase (%)
Flag fall (\$)	\$3.00	\$3.10	3.3%
Distance charge/Tariff I (\$ per km)	\$1.79	\$1.85	3.4%
Night-time surcharge	20% on top of distance rate	20% on top of distance rate	
Waiting time (\$ per hour)	\$46.20	\$47.72	3.3%
Waiting time threshold speed (km)	25.81km/hr	26km/hr	
Booking fee (\$)	\$1.60	\$2.00	25.0%
Maxi cab surcharge ^b	50% on top of fare	50% on top of fare	-
Value of average fare (\$) current assumptions	\$18.16	\$18.85	3.8%
Value of average fare (\$) recommended assumptions	\$20.08	\$20.83	3.8%

^a Applies to each kilometre after the first 12km in country areas, first 12km are at the normal distance charge.

^b No surcharge applies where the maxi-cab is hired from a taxi zone or hailed on the street to carry up to 5 passengers.

Source: Ministry of Transport website.

Table 6.3 Recommended country fares and change compared to current fares

	Current	Recommended	Increase (%)
Flag fall (\$)	\$3.50	\$3.60	2.9%
Distance charge/Tariff I (\$ per km)	\$1.83	\$1.87	2.2%
Distance Tariff II (\$ per km) ^a	\$2.57	\$2.65	3.2%
Night-time surcharge	20% on top of distance rate	20% on top of distance rate	-
Waiting time (\$ per hour)	\$47.20	\$47.94	1.6%
Waiting time threshold speed (km)	25.79km per hour	26km/hr	
Booking fee (\$)	\$1.00	\$1.25	25.0%
Maxi cab surcharge ^b	50% on top of fare	50% on top of fare	-
Value of average fare (\$) current assumptions	\$11.85	\$12.23	3.2%
Value of average fare (\$) recommended assumptions	\$15.93	\$16.44	3.2%

^a Applies to each kilometre after the first 12km in country areas, first 12km are at the normal distance charge.

^b No surcharge applies where the maxi-cab is hired from a taxi zone or hailed on the street to carry up to 5 passengers.

Source: Ministry of Transport website.

6.3.2 Impact of fare changes on a sample of trips

IPART has considered the impact of the above recommendations on the fares paid by passengers for a sample of different trips (Tables 6.4 and 6.5). This analysis shows that short trips that are booked by phone will rise by more than other types of trips in percentage terms, due to the recommended increase in the booking fee.

Table 6.4 Urban – changes in fares for a selection of different trips

	Current	Recommended	Change
Short City ^a	14.28	14.76	3.3%
To the Shops ^b	12.53	13.30	6.2%
Friday Night Home ^c	39.07	40.42	3.4%
Airport ^d	46.56	48.51	4.2%

a The short city trip is 2 kilometres long, and involves 10 minutes of waiting time due to heavy traffic congestion.

b The trip to the shops is phone booked, 4 kilometres long with 1 minute of waiting time.

c The Friday night trip home is 15 kilometres long and involves 5 minutes of waiting time. Where applicable, it attracts the night-time surcharge.

d The airport trip is 20 kilometres long, with 8 minutes of waiting time and a phone booking. It excludes airport charges.

Table 6.5 Country – changes in fares for a selection of different trips

	Current	Recommended	Change
Intra Town ^a	9.78	10.01	2.4%
Into Town ^b	17.05	17.67	3.6%
Longer Trip ^c	36.53	37.64	3.0%

a The intra town trip is hailed off the street, is 3 kilometres long and involves 1 minute of waiting time.

b The 'into town' trip is phone booked, is 6 kilometres long and involves 2 minutes of waiting time.

c The longer trip is phone booked, 15 kilometres long and involves 3 minutes of waiting time.

6.3.3 Implications for taxi industry participants

IPART's role in regulating the taxi industry is to ensure that the maximum taxi fare it recommends is set at a level that reflects the cost of providing taxi services to passengers. IPART has no role in setting the returns available to different industry participants.

IPART considers that its draft recommendations on fare increases are likely to maintain the industry's current level of financial viability, as they have been determined by the outcomes obtained from an industry-specific cost index and the expected gains in labour productivity. IPART has undertaken some additional analysis to check whether the level of fares currently in place is reasonable given the costs included in the TCI and found that the available evidence does not suggest that fares are below the level required to recover costs (see Chapter 7).

6.3.4 Implications for passengers

The overall impact of IPART's recommended increase on passengers is likely to be small, because spending on urban transport fares (including taxi fares) represents the equivalent of less than one per cent of average Australian household incomes.³⁵ However, IPART recognises that the increases being recommended will have an impact on individual taxi users.

Submissions to IPART highlighted the impact on low-income earners and passengers with disabilities if an increase above CPI is recommended.³⁶ IPART is aware that taxi users are often low-income earners, and taxi trips can be a necessary expense for passengers with few transport options. The Physical Disability Council notes that people with limited mobility often have little choice but to travel by taxi, and that many are on low or fixed incomes.³⁷

A survey of household expenditure by the ABS confirms that while those in the highest income quintile spend proportionately more of their expenditure on taxis than other groups, those in the lowest income quintile spend the second highest proportion.³⁸ For some low-income passengers the impact of higher taxi fares is tempered somewhat by the Taxi Transport Subsidy Scheme (TTSS) which subsidises taxi fares for qualifying passengers (see below).

NCOSS submitted that a relatively higher flag fall will disproportionately affect passengers taking shorter trips, which includes people with mobility difficulties.³⁹ IPART recognises this, and therefore has not recommended an increase in flag fall above the required average increase. However, it notes that the recommended 25 per cent increase to the booking fee will have a greater impact on passengers taking shorter trips.

Submissions also noted that many passengers of wheelchair accessible taxis (WATs) have lower incomes than other passengers.⁴⁰ IPART has specifically considered submission comments regarding WATs in Chapter 10.

6.3.5 Implications for the environment

The impact of the recommended maximum fare increases on the environment in terms of pollution and congestion is likely to be minimal. This is because the number of taxis in NSW is a small proportion of the overall number of NSW passenger motor vehicles, comprising approximately 0.2 per cent.⁴¹

³⁵ In the weights used in the 15th series of the Consumer Price Index, urban transport fares comprise less than one per cent of an average Australian household's spending. It is likely that the proportion of expenditure on taxi-fares in non-metropolitan households would be lower.

³⁶ NCOSS submission, February 2008, p 1.

³⁷ PDCN, IPART Public Hearing Transcript, 11 March 2008, p 31.

³⁸ ABS, Household Expenditure Survey, Australia: Detailed Expenditure Items, 2003-04.

³⁹ NCOSS submission, March 2008.

⁴⁰ PDCN submission, March 2008.

⁴¹ IPART, *Maximum fares for taxis in NSW for 2007/08*, July 2007, p 28.

6.3.6 Implications for Government

Government funding of fares for taxi services is limited to rebates provided via the taxi transport subsidy scheme (TTSS), which provides a 50 per cent subsidy up to a maximum of \$30 for people who are unable to use public transport due to a severe and permanent disability. In 2006/07, 1.9 million taxi trips were subsidised by the TTSS at a cost of \$20.9 million. Since 2001/02, TTSS payments have risen by an average of 11.9 per cent per year. All else being equal, an increase in maximum taxi fares is likely to increase the level of Government funding required for the TTSS. However, the fare increases under the draft recommendations are not substantial and as a result IPART does not consider that there will be a significant impact on funding required.

7 | Level of fares compared with costs

The cost information provided by the PwC survey has given IPART the opportunity to consider whether the current level of fares is sufficient to generate enough fare revenue to recover reasonable costs of a typical taxi. IPART's draft finding on this issue is summarised in the section below. The subsequent sections discuss IPART's considerations and analysis in reaching this decision.

7.1 IPART's draft finding

IPART does not set a minimum wage for drivers and does not determine the allocation of returns in the industry. However, it is important to ensure that fare revenue overall is delivering sufficient income to ensure that the costs of providing taxi services are recovered.

While the drivers' associations submitted that fares need to be increased further in order to ensure that drivers receive an appropriate hourly rate of pay, the available information for urban taxis suggests that fares are currently set at a level that should recover the reasonable costs for a typical taxi operating efficiently.

IPART considers that many of the concerns regarding drivers' remuneration relate to the allocation of fare revenue rather than the overall level of fares. These concerns cannot be addressed as part of a fare review, as they are affected by the market power of various elements of the industry and other regulatory processes, such as the conditions of remuneration and entitlements established by the Industrial Relations Commission for taxi drivers in Sydney.

7.2 Stakeholders' views on revenue received

In their submissions, the two taxi drivers' associations (NSWTDA and ATDA) argued that given the current level of taxi usage, the current level of fares is not sufficient to allow the recovery of all costs. For example, they claimed that the 'wage' earned by drivers is around \$13 per hour, not the \$19 per hour PwC used to build up costs.

In response to these concerns, IPART explored whether taxi fares, at their 2007 level, can generate sufficient revenue to recover the level of costs used to calculate the TCI. If there is no significant difference between the total level of fare revenue and the

total level of costs, then the concerns expressed by the drivers' associations may be a result of the way fare revenue is allocated among the various industry participants, rather than shortcomings of the TCI approach.

Based on its analysis of the available data on costs and revenues (discussed in the sections below), IPART considers there is nothing to suggest that the overall level of fares is out of step with the costs estimated for 2007 for urban taxis. However, estimates of fare revenue vary significantly, depending on the assumptions used to derive them. Better information on revenue and taxi usage would allow IPART to test the relativity of costs and revenue more fully.

7.3 Available data on costs and revenues

While the primary purpose of the taxi cost survey undertaken by PwC was to re-set the weightings in the TCI, this task required PwC and IPART to estimate the annual costs of providing services for typical urban and country taxis. Table 7.1 summarises IPART's draft decisions on these estimated costs and compares them to the cost estimates used to calculate the TCI in 2007.

Table 7.1 Cost estimates used to calculate the TCI

	Current TCI (\$)	IPART's draft decisions for 2008 (\$)
Urban		
Driver costs	93,015	118,144
Operator costs	107,617	80,396
Total costs	200,632	198,540
Country		
Driver costs	74,461	116,401
Operator costs	81,575	72,025
Total costs	156,036	188,426

Note: Cost amounts recommended by PwC are GST inclusive, cost amounts from the current TCI are exclusive of GST.

Source: IPART, *Maximum fares for taxis in NSW for 2007/08*, July 2007, pp15-16 and PricewaterhouseCoopers, *Review of Weightings in Taxi Cost Model*, Dec 2007, p 22.

While IPART is reasonably confident in the reliability of its information on the cost side, the same is not true for the information on the revenue side. A variety of methods could be used to develop estimates of fare revenue, including:

- ▼ collecting revenue information from a representative sample of taxis
- ▼ collecting information on fares paid from a representative sample of passengers
- ▼ multiplying estimates of the average fare and number of trips per taxi.

There is not enough information available for IPART to use any of these methods to estimate fare revenue for country taxis. There is some information available to estimate fare revenue for urban, and IPART has attempted to use this data to develop a range for annual fare revenue per urban taxi (discussed in section 7.4 below). However, it is not confident in the resulting estimates, due to shortcomings in the data.

For example, the revenue data obtained via the PwC survey is so different to PwC's own cost estimates and other revenue estimates that IPART does not consider that it is reliable. (For instance, the PwC survey data suggests that an average urban fare generates around \$5 in revenue, compared with IPART's current assumptions of around \$18 and the ATDA's estimate of around \$16.)

The two taxi driver associations have provided some revenue estimates, based on a sample of taxis from Alexandria. While IPART has no reason to doubt the validity of the information provided, it is not confident that it represents data for a broader area, for a broader selection of drivers, or even for the taxis for which meter data is provided (if drivers were avoiding using meters). In addition, there is likely to be variation between drivers as a result of differing levels of skill and experience, which will also affect fare revenue estimates.

Nevertheless, IPART believes that obtaining more meter data on a regular basis from a representative sample of drivers will assist it in future fare reviews. IPART strongly encourages drivers and their associations to provide meter data on an on-going basis.

IPART attempted to obtain reliable revenue and driver income information from other sources, such as the Australian Bureau of Statistics and the Australian Taxation Office. However, none of these bodies were able to provide adequate information that could be used to estimate annual revenue for a standard taxi.

7.4 Comparison of costs and revenue for a typical urban taxi using IPART's assumptions for 2007/08

IPART tested the revenue implications of the assumptions it has made in this draft report against the cost estimates discussed above. Table 7.2 shows the operating assumptions IPART made in determining the weightings of the cost items in the TCI (ie, the inputs to the cost model that underlies the TCI). It also shows the estimated value of drivers' and operators' share of these costs (ie, the outputs of the cost model), and the average fare at 1 July 2007.

IPART used the assumptions and cost estimates shown in this table to estimate whether, given the level of the average fare in 2007, taxi fares generate sufficient revenue to cover drivers' costs and operators' costs (Table 7.3).

Table 7.2 IPART's operating assumptions and cost estimates for drivers and operators, 2007

	Value
Operating assumptions (per taxi)	
Weeks per year	52
Shifts per year	520
Km travelled per year	130,000
Paid trips per shift	19
Maximum pay in per shift	165
Hours worked per shift	9
Cost estimates (per taxi)	
Notional drivers' labour costs per year	99,435
Total drivers' costs per year	118,144
Total operators' costs per year	80,396
Total costs of a typical taxi per year	198,540
Average fare assumptions	
Under current fares	20.08

Note: Pay-in is based on the average pay in per shift from the current IRC contract determination.

Table 7.3 shows that, based on IPART's operating assumptions and cost estimates, a taxi should generate revenue that is approximately equal to costs. IPART considers that its assumptions are conservative, and notes that they result in revenue that is below the level that the ATDA claims is the current revenue earned by NSW taxis.

Table 7.3 Revenue less costs for drivers and operators under assumptions applied by IPART, 2007

	Value	How calculated
Driver pay less driver's costs		
Driver fare collected	198,390	Average fare multiplied by paid trips per year
Pay-in to operator	85,904	Maximum pay in per shift multiplied by shifts per year
Non labour driver costs (ie fuel and 'other costs')	18,709	From table above
Fare collected less pay in to operator and non labour driver costs	93,777	
Calculated hourly 'wage' estimate	20.04	Fare collected less pay in and non labour driver costs divided by number of hours
Operator pay less operator's costs		
Operator revenue (pay-in to operator)	85,904	Maximum pay in per shift multiplied by number of shifts
Operator costs	80,396	From table above
Operator revenue less operator cost	5,508	
Operator 'margin'	7%	Operator revenue less operator cost divided by operator cost
Costs and revenue overall		
Revenue in \$ per km	1.53	Average fare multiplied by paid trips per year divided by number of km travelled
Costs in \$ per km	1.53	Total costs divided by number of km travelled

Note: Pay in is based on the average pay in per shift from the current IRC contract determination.

7.5 Comparison of costs and revenue for a typical urban taxi using the full range of revenue estimates available

The operating assumptions made have a significant impact on the revenue estimates obtained. As a further check on the relativities between costs and revenue, IPART compared the cost estimates used in calculating the TCI with a range of fare revenue and usage estimates for a typical taxi. As noted above, there was no single set of reliable usage and revenue data on which to base this analysis. Therefore, IPART derived a range of estimates using information in PwC's report on its survey findings and information provided by industry stakeholders.⁴² Table 7.4 sets out this range of revenue and usage estimates.

⁴² In particular, IPART used information provided by NSWTD in 2006, the ADTA in 2008 and the Taxi Council.

Table 7.4 Reasonable range of revenue and usage estimates (per taxi, per year)

	High	Low	Mid-point	Data source
Estimated revenue	217,920	183,750	200,835	<ul style="list-style-type: none"> ▼ High is IPART's current average fare multiplied by high estimate for total trips per taxi ▼ Low is ATDA's 2008 estimate
Calculated revenue	243,120	158,400	198,550	<ul style="list-style-type: none"> ▼ Calculated by multiplying estimates for average fare by estimates for number of trips per taxi
Average fare	\$20.26	\$15.84	\$18.05	<ul style="list-style-type: none"> ▼ Calculated using range of available estimates of average trip length, waiting time and phone bookings
Number of paid trips ^a	12,000	10,000	11,000	<ul style="list-style-type: none"> ▼ High is ATDA's 2006 estimate rounded up ▼ Low is ATDA's 2008 estimate rounded down
Weeks operated per year	52	50	51	<ul style="list-style-type: none"> ▼ High is PwC's 2008 estimate ▼ Low is ATDA's 2008 estimate
Shifts operated per week	13	10	11.5	<ul style="list-style-type: none"> ▼ Calculated as shifts per year divided by number of weeks
Shifts operated per year	676	500	588	<ul style="list-style-type: none"> ▼ Calculated (number of weeks times number of shifts per week)
Hours operated per year	8,112	4,500	6,906	<ul style="list-style-type: none"> ▼ High is calculated as ATDA 2006 estimate of 12 hrs per shift by high estimate of shifts per year ▼ Low is calculated as PwC 2008 estimate of 9hrs per shift by low estimate of shifts per year
Total kilometres travelled	175,000	111,800	143,400	<ul style="list-style-type: none"> ▼ High is ATDA's 2008 estimate ▼ Low is PwC's 2008 estimate (based on driver responses to survey)

^a Estimates from the PwC survey were considered to be unreasonably low and estimates from the NSW Taxi Council were considered unreasonably high. Both of these estimates were excluded from the range.

IPART considers that overall, the above estimates of fare revenue suggest that fares are sufficient to recover reasonable costs. At the mid-point of the reasonable range, fare revenue would appear to be approximately equal to the 2007 costs incorporated by IPART in the TCI.

In response to a suggestion by the ATDA, IPART has compared costs with the revenue estimates included on Table 7.2 on a per kilometre basis. This comparison is shown on Table 7.5. The revenue estimates per kilometre range from a low of \$1.25 to a high of \$1.64 per kilometre. (This range is in line with ATDA's estimate of revenue per km as at March 2008, which was \$1.60). In comparison, the cost estimates used to calculate the TCI in 2007 imply costs in the range of \$1.13 to \$1.78 per km.

Table 7.5 Costs and revenues on a per kilometre basis

	High	Low	Mid point
Estimated revenue (\$/km)	1.25	1.64	1.40
Calculated revenue (\$/km)	1.39	1.42	1.38
Estimated cost (\$/km)	1.13	1.78	1.38

Note: All figures include GST.

Although IPART has no role in setting the distribution of fares to operators and drivers, it has considered the implication of fares for each of these under the current maximum pay-in set by the Industrial Relations Commission. Based on the range of estimates in Table 7.4, the drivers' 'notional wage' would be in the range of \$12 to \$14 per hour. In addition, the resulting operator margins are between 3 and 39 per cent. The mid-point estimate for operator margin is 21 per cent (Table 7.6). It should be noted that there are important differences between these estimates and those obtained using IPART's own estimates (see Table 7.3)

Table 7.6 Annual driver and operator revenue estimates 2007/08 – based on calculated revenue

	High	Low	Mid-point
Calculated annual revenue estimate	243,120	158,400	198,550
IPART annual non-labour driver costs ^a	18,709	18,709	18,709
IPART annual operator costs	80,396	80,396	80,396
Hours taxi operates per year	8112	4500	6906
Driver 'wage' per hour ^b	13.90	12.69	11.98
Operator revenue (pay-in)	111,675	82,600	97,138
Operator pay-in less operator costs	31,279	2,204	16,742
Operator 'margin' ^c	39%	3%	21%

^a Driver non-labour driver costs are fuel costs and driver other costs.

^b Driver 'wage' is revenue less non-wage driver costs less pay divided by the number of hours the taxi is on the road – it therefore, provides compensation for all driver labour costs including entitlements and superannuation.

^c Operator margin is the pay-in less costs as a proportion of operator costs.

Note: This table uses calculated revenue from average fare estimates because this provides the greatest range of revenue estimates.

At the mid-point, the estimate of drivers' income is below the notional level included in the TCI. In addition, the estimate for the operator margin is substantially above the levels found in Victoria by the Essential Services Commission (ESC). The ESC

has calculated operator margins of between 1 and 15 per cent in Victoria, and 8 per cent in metropolitan areas.⁴³ However, in practice pay-ins are usually discounted to a rate below the maximum set by the IRC. The rate of discount is determined by the market and is therefore, difficult for IPART to take into account in its analysis.

The ATDA has suggested that fares should be set at a level that provides for an operators' margin, which has not been explicitly included in the TCI to date. IPART intends to examine in more detail whether operators' margin is adequately addressed in the TCI framework (and if not, how it should be incorporated) before next year's fare adjustment.

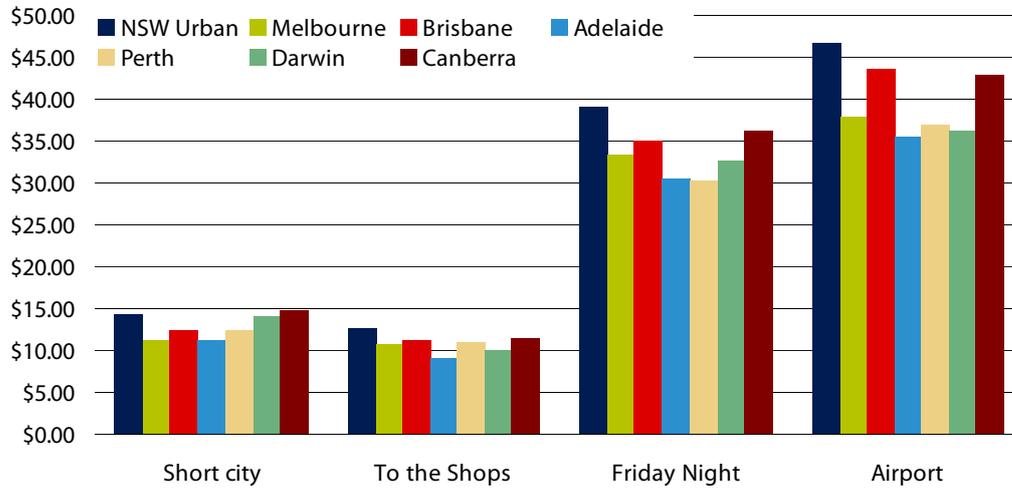
7.6 Comparison with fares in other states

Finally, IPART compared the current level of fares in NSW with the level of fares in other states for various types of trips. This analysis indicates that the level of fares in NSW is generally above that in other states (Figures 7.1. and 7.2).

IPART notes that although the average length of trips, and the road and traffic conditions are likely to differ in different geographical regions, the overall costs of providing taxi services are not likely to be substantially different. Therefore this comparison suggests that the overall level of fare revenue collected in NSW is not out of step with, and certainly not below, revenue collected from fares in other states.

⁴³ Essential Services Commission, *Review of Taxi Fares 2007/08 Interim Report*, March 2008, p 45.

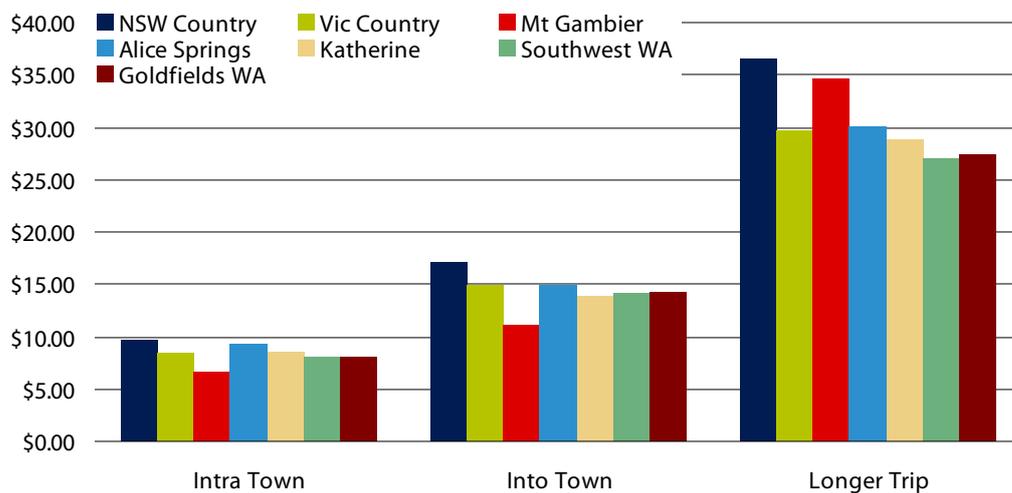
Figure 7.1 Taxi fares for various types of trips in selected capital cities



Note: The short city trip is 2 kilometres long, and involves 10 minutes of waiting time due to heavy traffic congestion. The trip to the shops is phone booked, 4 kilometres long with 1 minute of waiting time. The Friday night trip home is 15 kilometres long and involves 5 minutes of waiting time. Where applicable, it attracts the night-time surcharge. The airport trip is 20 kilometres long, with 8 minutes of waiting time and a phone booking. It excludes airport charges.

Source: Fares obtained from the relevant government agency and/or taxi companies.

Figure 7.2 Taxi fares for various types of trips in selected country areas



Note: The intra town trip is hailed off the street, is 3 kilometres long and involves 1 minute of waiting time. The 'into town' trip is phone booked, is 6 kilometres long and involves 2 minutes of waiting time. The longer trip is phone booked, 15 kilometres long and involves 3 minutes of waiting time.

Source: Fares obtained from the relevant government agency and/or taxi companies.

8 Measures to address volatility in LPG fuel costs

Under the current approach to calculating annual fare recommendations drivers are compensated for the average change in LPG fuel costs over the previous 12 months. Fluctuations in the daily price are incorporated into the average. This approach is also used for changes in other items, such as interest rates.

At the public hearing on 12 March, the NSW TDA noted that recent sharp increases in the price of LPG meant that taxi drivers were experiencing hardship:

The PwC survey found gas prices last year near the 45 cent a litre mark. Since then, gas prices have soared to 55, 65, 75 cents per litre and for the past two weeks have been at 65 cents per litre and, of course, the drivers are wearing the costs of these outrageous increases.⁴⁴

To address this issue, the NSW TDA asked IPART to consider a \$1 per fare LPG fuel levy. It has also written to the Minister for Transport requesting such a levy and the Minister has written to IPART requesting detailed consideration of this issue as part of the 2008 fare review.

IPART's draft findings and recommendations on this issue are summarised below. The subsequent sections explain how LPG prices move and what drives them, the need for additional measures to address the volatility of LPG prices, the options IPART considered and the rationale for its draft recommendations.

8.1 IPART's draft findings and recommendations

IPART's draft finding is that under the current approach to regulating taxi fares, the impact of sharp increases in the cost of LPG fuel (as have been experienced recently) could have a significant affect on drivers' cashflow. Therefore, an additional measure to address this impact is warranted.

IPART considers that the most appropriate approach is to undertake an additional limited review of LPG fuel costs in October each year (ie, at the midpoint of the period over which cost increases are measured). If fuel costs for the 6 months to September each year have varied by more than 10 per cent (up or down) then IPART would recommend that taxi fares be adjusted by the change in the fuel costs. If average fuel costs have changed by less than 10 per cent then there would be no fare

⁴⁴ Transcript - Review of taxi fares 2008, p 8, line 8-13.

change. IPART understands that the costs of a meter adjustment are between \$60 and \$120 and that these costs are borne by operators.

Draft recommendation

- 4 In addition to the annual review process, that IPART should undertake a limited review of LPG fuel costs in October each year.

In the event that these costs have changed by 10 per cent or more (up or down), that IPART should recommend to the Minister that:

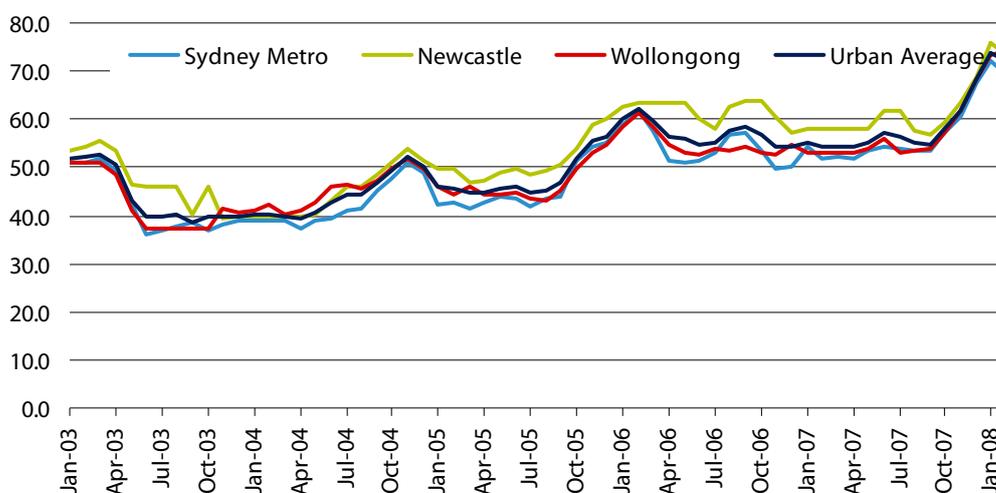
- maximum taxi fares should be adjusted to reflect the change in the fuel component of the taxi cost index, and this change should be equal to the average change in the price of LPG (as recorded by Fueltrac) for the 6 months to September
- no changes should be made to the components of the taxi cost index other than for LPG fuel
- only the distance-based component of taxi fares should be adjusted.

That the limited review of fuel LPG fuel should be conducted by 30 October and any fare change should be implemented by mid November (subject to how quickly meters and stickers can be updated).

8.2 How LPG prices move and what drives them

The price of LPG is determined in a competitive market. Figure 8.1 provides a summary of the movement in LPG prices over the past 5 years.

Figure 8.1 Movement in LPG prices over the past five years



Data source: Fueltrac.

Local LPG prices are influenced by the prevailing international LPG price level. Local prices also reflect transport and storage costs. According to Australian Liquefied Petroleum Gas Association Ltd⁴⁵:

From September 2007 the crude oil price increased significantly, achieving record highs in January 2008. This increasing international crude oil price had a corresponding impact on the price of other internationally traded liquid fuels such as LPG.

At present, global demand for LPG remains strong as major markets experience the Northern Hemisphere winter. However, demand for LPG as a petrochemical feedstock has moderated during Jan-Feb 2008.

The Victorian Government recently asked the Essential Services Commission (ESC) to review taxi fares and in particular to consider whether fares should be adjusted for changes in the price of LPG. The ESC released its interim report on 19 March and made the following observations regarding LPG prices:

LPG prices were around 40% higher in January 2008 compared to January 2007 and around 20% higher than the previous peak in February 2006. While LPG prices have spiked in recent months, there are typically peaks in most summer periods, associated with winter heating demand in the northern hemisphere. LPG prices may be expected to ease in the coming months as the northern hemisphere enters the spring season. Overall, lower recent Saudi Aramco contract prices for Propane and Butane (the major components of LPG) and recent futures contract prices on the New York Mercantile Exchange (Nymex) indicate the market expects a combined decrease in LPG prices of 12-13% from their January peak over the coming months.

However, while prices are expected to ease to around 60 cent per litre (cpl) over the period February to June 2008, based on the Nymex futures, they will still be approximately 18% higher than the average for calendar 2007. Between the June quarter 2005 and the December quarter 2007, LPG prices are estimated to have added an additional 3.8% to taxi operator costs⁴⁶.

8.3 The need for additional measures to address the impact of changes in the LPG price

Currently the cost of fuel is incorporated in the TCI. IPART's revised weighting for the LPG fuel cost item in the TCI is 6.94 per cent for urban taxis (compared with the current weighting of 8.35 per cent) and 6.55 per cent for country taxis (compared with the current weighting of 9.12 per cent).

The estimate of LPG fuel costs per taxi per year depends on assumptions about the distance travelled, the fuel consumption of the vehicle and the price of fuel. IPART's revised weighting is based on the annual average daily price over the 12 months to 31 March 2007. The value of this weighting is then increased by the inflator, which is based on the annual average daily price of LPG over the 12 months to 31 March 2008.

⁴⁵ <<http://www.lpgaaustralia.com.au/displaycommon.cfm?an=1&subarticlenbr=10>> March 2008.

⁴⁶ Essential Services Commission, *Review of Taxi Fares 2008/08 Interim Report*, March 2008, p 6.

The recent price increases were at their highest in early 2008, with an average LPG price for February 2008 of 69.2 cents/litre in Sydney. For urban taxis, the base year for the TCI (2007) uses an LPG price of 53 cents/litre to determine the weighting for fuel in the TCI. To the base weighting, IPART has applied an inflator based on comparing the average daily price for the 12 months to March 2007 with the average daily price of LPG for the 12 months to March 2008. The average daily price of LPG to 31 March 2008 was 59.2 cents/litre, which results in increases in LPG costs over this period included in the TCI of 12.68 per cent.

This approach means that drivers are compensated for the average change in fuel costs over the previous 12 months. Fluctuations in the daily price are incorporated into the average. IPART considers that this is reasonable when fuel costs change moderately. However, when these costs increase sharply, this 12-month lag in 'compensation' may have a significant affect on a driver's cashflow.

Fuel costs represent between 7 to 10 per cent of a typical urban drivers' weekly gross farebox. Based on estimates of taxi revenue provided, a typical taxi's gross weekly fares are \$3,815. From this the driver's pay-in and fuel is deducted. Table 8.1 presents a notional weekly cashflow for a typical taxi under different fuel prices (with fare revenue and all other costs held constant).

Table 8.1 Weekly cashflow under different LPG prices 2007 costs (\$ per taxi)

	LPG at 53c/l	LPG at 65c/l	LPG at 75c/l
Weekly fares	3,815	3,815	3,815
Weekly pay-in	1,652	1,652	1,652
Fuel	265	325	375
Fares less pay-in and fuel	1,898	1,838	1,788
Additional cost of LPG per trip	0	0.32	0.58

8.4 Options for addressing the impact of changes in the LPG price

There are a number of ways of addressing LPG price volatility including:

1. the \$1 levy on each fare proposed by the NSW TDA
2. the use of a 'trigger mechanism'
3. undertaking a limited review of only LPG prices part way through the year.

IPART assessed each of these options in terms of their reasonableness as a means of addressing the issue, whether they can be applied in response to both price increases and decreases, cost of implementation, simplicity/transparency and compatibility with the current form of regulation. Its draft finding is that the third option, undertaking a limited review of LPG fuel prices part way through the year best meets its criteria. The sections below explain each option in more detail, and why IPART prefers the limited review option.

8.4.1 A \$1 levy on each fare, as proposed by the NSWDTA

The NSWDTA proposed that a \$1 levy be imposed on all taxi fares. However, IPART considers that imposing a fixed dollar amount on all trips, unrelated to the distance travelled, is not an appropriate way to recover costs that are distance-based. In addition, as NCOSS has pointed out, higher fixed fare components compared with distance components has a disproportionate impact on low-income and less mobile passengers. Therefore, the proposed fuel levy is likely to have a disproportionate impact on such passengers, who need to use taxis to travel shorter distances.

Fuel cost increases to 31 March 2008 will be compensated for in IPART's fare recommendations. However, if a levy was considered for future LPG price increases, a \$1 levy would only be appropriate if the increase in LPG prices was substantially higher than the increases experienced recently. For example, the last column on Table 8.1 (above) shows the estimated cost of fuel per taxi per week if the price of LPG increased to 75 cents per litre (or by around 40 per cent compared to the average price in 2007). Under such a scenario, IPART calculates that drivers would need to pay an additional \$110 in fuel costs per week. Assuming that a taxi does 190 trips per week⁴⁷, a fuel levy of only around \$0.58 per trip would be sufficient to cover this cost.

By its nature, a levy implies that only **increases** in LPG prices would be addressed. IPART considers that any mechanism to address uncertain and volatile input prices should be able to operate symmetrically, so that passengers receive the benefit of price reductions.

In addition, if a levy was introduced, adjusting the TCI in the following year to take the levy into account would be extremely difficult. This is because it would not be possible to identify with any certainty how much of the LPG cost increase has already been recovered through fares.

8.4.2 A trigger mechanism

One option to address LPG price volatility is to use a trigger mechanism which could include a threshold level for the change in the LPG price. If the change in LPG prices experienced exceeded a specified value then a new fare review would be triggered. This option has the benefit of being symmetrical and of allowing IPART to take into account all of the circumstances faced by the industry.

This approach would require IPART to identify an appropriate, transparent threshold, and choose a level for this threshold that will only trigger a review when the change in fuel cost is such that it causes a material or potentially fundamental change in market conditions. Subject to an appropriate threshold being specified, this approach has the advantage of being responsive to changes in LPG prices whenever they occur.

⁴⁷ Based on IPART's assumptions (see Chapters 3 and 7).

Because it is not possible to forecast whether a trigger event will occur or when, this approach is potentially costly. It would require IPART and/or the industry to monitor movements in fuel prices to determine whether a review is required and it may result in fare changes that are relatively close together, or multiple fare changes within a 12-month period. IPART considers that this approach is also likely to create too much uncertainty and has the potential to be confusing to passengers.

8.4.3 Six monthly review of fuel costs

The third option to deal with volatility in the costs of LPG fuel is for IPART to undertake a six monthly review of these costs only. IPART prefers this approach, but is nevertheless aware that it may lead to more frequent fare changes which necessarily involve costs. IPART considers that it is appropriate to minimise these costs.

IPART considers that in the interests of regulatory efficiency and cost minimisation any six monthly review should:

- ▼ be mechanistic, predictable and symmetrical
- ▼ only recommend a change in maximum taxi fares where a material change in the cost of LPG has been experienced
- ▼ recommend a change to LPG fuel cost component of the TCI only; all other components should remain unchanged
- ▼ recommend that the change be applied to the distance-based component of taxi fares only, as the fuel costs are based on distance travelled.⁴⁸

In order to determine an appropriate level of materiality for fuel price changes, IPART has obtained daily prices of LPG for the past 5 years and has used this to calculate average monthly and six monthly LPG prices since January 2003. Since January 2003 the absolute change in average monthly LPG prices in Sydney has been more than 10 per cent 6 times – four of which were downward movements. For other areas of NSW there have been two monthly changes above 10 per cent since January 2005 (see Appendix D).

Tables 8.2 and 8.3 below show the six-monthly changes in LPG prices based on the same data.

⁴⁸ This may result in a reset of the waiting time threshold speed.

Table 8.2 Six monthly fuel changes in Sydney Metropolitan region – 2003-2008

Month	LPG Cost	Change
March-2003	51.7	
September-2003	38.6	-25.37%
March-2004	38.9	0.78%
September-2004	45.2	16.20%
March-2005	41.5	-8.19%
September-2005	44.1	6.27%
March-2006	57.5	30.39%
September-2006	57.1	-0.70%
March-2007	52.2	-8.58%
September-2007	53.3	2.11%
March-2008	65.5	22.84%

Note: March and September data used as they represent the end point and mid-point of data used in the annual taxi fare review.

Source: Fueltrac Data.

Table 8.3 Six monthly fuel changes in the rest of NSW– 2005-2008

Month	LPG Cost	Change
March-2005	52.2	
September-2005	53.8	2.96%
March-2006	66.2	23.10%
September-2006	63.8	-3.69%
March-2007	61.9	-2.89%
September-2007	61.7	-0.34%
March-2008	76.2	23.47%

Note: March and September data used as they represent the end point and mid-point of data used in the annual taxi fare review.

Source: Fueltrac Data.

Having reviewed the information available on historical LPG prices, IPART considers that a 10 per cent change in LPG prices over a six monthly period strikes an appropriate balance between minimising the impact of price volatility on drivers' cashflow and minimising the costs associated with frequent fare changes.

Therefore, IPART's view is that if fuel costs for the 6 months to September have varied by more than 10 per cent (up or down) then IPART should recommend that the Minister adjust taxi fares by the change in the fuel costs. If average fuel costs have changed by less than 10 per cent then there would be no fare change.

In the event that this threshold is met and fares are changed, IPART considers that:

- ▼ the change in the fuel component should be equal to the average change in the price of LPG (as recorded by Fueltrac) for the 6 months to September
- ▼ no changes should be made to the components of the TCI other than the LPG fuel cost item
- ▼ the change should be applied to the distance-based component of taxi fares only
- ▼ the limited review should be conducted by 30 October with a fare change to be implemented by mid November (subject to how quickly meters and stickers can be updated).

9 Premium taxi services

Since the mid-1990s, 'premium' taxi services under brands such as Silver Service, Prestige and Diamond have grown in NSW. Unlike wheelchair accessible taxis (WATs), which have been specifically encouraged and regulated, premium taxis are an innovation that has developed through the marketplace. Maximum taxi fares currently apply equally to all taxis in NSW: standard (white) taxis, WATs and premium taxis.

However, past submissions to IPART have suggested that there are higher costs associated with providing premium taxi services compared with the standard service. These premium taxi-specific costs are not necessarily captured by the TCI, which focuses on the costs of a 'typical' taxi. Premium taxis must therefore recover these additional costs through higher levels of utilisation, as a result of higher standards of comfort and driver knowledge.

In past reviews, some industry stakeholders have argued that premium taxi services have higher costs and provide a higher quality of service than standard taxi services and therefore should be able to charge higher fares.

In its Issues Paper for this review, IPART suggested a number of options to address this issue, and sought stakeholder views. It then considered these responses and undertook its own analysis. The section below summarises IPART's draft findings and recommendations. The subsequent sections explain the considerations and analysis that underpin these findings and recommendations.

9.1 IPART's draft findings and recommendations

IPART considers that it is appropriate to introduce differentiated fares for premium taxis by allowing these taxis to charge a booking fee that is not subject to a regulated cap, for a trial period of 12 months. This trial should be subject to conditions, and its impact should be reviewed at the end of the 12-month period.

Recommendation

- 5 That premium taxis should be able to charge an unregulated booking fee for a trial period of 12 months, subject to the following conditions:
- The unregulated booking fee should apply only to those passengers that specifically request a premium service.
 - Networks must provide standard services at the regulated booking fee and must notify customers of this at the time the booking is made.
 - Networks must disclose the premium booking fee that will apply and the service provided for that fee to the customer at the time of booking.
 - Premium taxis must display the booking fee inside the taxi.
 - The unregulated booking fee should apply only to pre-booked premium taxis. Fares for all taxis hired at a rank or hailed in the street (including premium taxis) would be subject to the regulated maximum fares determined by the Minister.

That an appropriate monitoring regime should be implemented and that IPART should review and publicly report on the outcome of the 12-month trial.

9.2 Stakeholder views

In its Issues Paper, IPART raised the possibility of differentiated fares for premium taxis, and suggested two options for introducing these fares including:

- ▼ setting a higher regulated fee for premium taxi radio bookings (either specifying the actual or maximum charge)
- ▼ allowing premium taxis to charge an unregulated fee for premium taxi radio bookings.

In their submissions, stakeholders expressed mixed views on the introduction of a premium booking fee. Their main arguments for and against premium booking fees are summarised in Table 9.1.

Table 9.1 Arguments for and against a premium booking fee raised in submissions

Arguments for	Arguments against
▼ Compensates for higher costs	▼ Leads to higher prices which will affect customers
▼ Provides a legal framework for current practices	▼ Potentially reduces availability of standard services
▼ Increases relative competitiveness of standard taxis	▼ Premium standard should be the minimum standard for all taxis
▼ Creates greater incentives for premium taxis that will increase number of these taxis to everyone's benefit	▼ Its difficult to define premium services

In general, industry stakeholders supported the introduction of a premium booking fee, but preferred different options. The Taxi Council suggested that IPART should set a maximum premium booking fee of \$25, to enable taxis to recover higher costs and provide a legal framework for above-fare negotiation. The ATDA supported unregulated premium booking fees, and suggested that the value of this fee should be negotiated between drivers and passengers. Non-industry stakeholders did not support a premium booking fee and were concerned about the impact on passengers and standards in the industry.

The PwC survey did not provide robust cost information for premium cabs. However, revenue data provided by the ATDA shows that premium service drivers earned almost twice the hourly rate of standard cab drivers.⁴⁹ In its submission, the ATDA noted that premium taxis tend to take marginally fewer trips, but for longer journeys and more paid kilometres. It suggested that on the information available to it, annual fares for premium cabs are around \$280,000 compared with around \$210,000 for standard cabs even though the premium cabs work fewer shifts than the standard cab.⁵⁰

At the public hearing, the Taxi Council suggested that the current lack of a higher fee for premium service cabs has led to a situation whereby drivers are illegally charging higher fares to customers.⁵¹ The ATDA supported this view: its submission noted that many drivers negotiate a higher rate for premium bookings and run off-meter.⁵² The Taxi Council suggested that a premium booking fee would provide a legal framework around this activity.⁵³

Other submissions raised concerns that customers would be required to pay more for the services they receive and that level of service provided by standard taxis may fall. For example, the Tourism and Transport Forum (TTF) submitted that the level of service currently provided by taxis in NSW is low, that competition on the basis of service quality without any increase in fares is healthy for the industry, and that an additional fee set for premium taxis would not improve the level of service by standard taxis.⁵⁴ NCOSS' submission raised concerns that growth in the proportion of premium services under a higher fee would affect the affordability of taxi services for low income earners.⁵⁵ NCOSS also suggested higher fees would give incentives to drivers to ignore street hails in favour of premium work, reducing service quality to non-premium users.⁵⁶

⁴⁹ ATDA submission, March 2008, p 40.

⁵⁰ ATDA submission, March 2008, p 6.

⁵¹ Mr Peter Ramshaw (NSWTC), IPART Public Hearing Transcript, p 9.

⁵² ATDA submission, March 2008, p 16.

⁵³ NSWTC submission, March 2008, p 5.

⁵⁴ TTF submission, March 2008, pp 5-6.

⁵⁵ NCOSS submission, March 2008, p 3.

⁵⁶ NCOSS submission, March 2008, p 3.

9.3 What happens in other states?

IPART investigated whether taxis in other states charge differentiated fares for premium taxi services. It found that higher maximum booking fees for premium taxis are in place in two states: Victoria and Queensland (see Table 9.2).

Table 9.2 Premium taxi charges in Victoria and Queensland

	Definition of premium services	Nature of premium charge	Maximum booking fee for premium taxis
Victoria	Long wheel-base vehicles under 2.5 years old	Booking fee only	\$11 (inc GST)
Queensland	Purchase cost of the vehicle exceeds a specified value	Booking fee only	\$11 (inc GST)

Note: Queensland premium fees apply in urban areas only.

9.4 IPART's preferred approach for introducing premium booking fee for NSW

Taking account of stakeholders' comments and what happens in other states, IPART considers that there may be a case for introducing differentiated fares for premium taxis. However, any differentiated fare should be applied through the booking fee only. One of the main reasons for regulating taxi fares is to protect consumers from the abuse of market power, particularly in the rank and hail markets, where the consumer often has little bargaining power. These passengers should not be forced to pay extra for a premium taxi, simply because the first cab they hail happens to be a premium taxi.

If there were sufficient competition between the networks, it is possible that the market could deliver a competitive price for taxi services in the booking market, without the need for any price regulation. However, IPART does not consider that sufficient competition exists in NSW at present, in either the urban or country markets. Therefore, any differentiated booking fee for premium services should be applied only if the customer specifically requests a premium taxi.

IPART does not support setting a higher regulated premium booking fee, as the Taxi Council proposed. It considers there is insufficient information available to determine the appropriate level for such a fee. While it notes that a maximum booking fee for premium services applies in Victoria and Queensland, the basis for the level of the fee is unclear. In addition, IPART considers that where there is sufficient competition, a price determined by the market delivers better outcomes rather than prices set through regulation. While there may not be sufficient competition between networks to completely deregulate fares in the booking market, IPART's preferred approach would mean that consumers have the option of booking a standard taxi that will continue to be regulated. Premium taxis would effectively be competing against the standard service, which means that the market should be able to determine an efficient price.

IPART has considered stakeholders' concerns about the impact on customers, both in terms of higher charges and the quality of service. IPART considers it unlikely that the introduction of unregulated premium booking fees will impact on the price or quality of service for non-premium users. However, given stakeholders' concerns it considers that unregulated booking fees should be introduced on a trial basis at first, and that the conditions of the trial should include:

- ▼ That networks must provide standard services, either directly or by an agreed off-loading arrangement, at the standard regulated booking fee at no additional cost to passengers. This will ensure that non-premium users will continue to have access to regulated fares.
- ▼ That networks that provide premium services be required to disclose the premium booking fee to callers and the level of service provided (at the time of booking), and give callers the option of a standard service. Dedicated premium networks could divert callers who are not willing to pay an additional premium booking fee to a network that does.
- ▼ That operators of premium cabs be required to display the premium booking fee that will apply, inside the taxi. This measure would go some way towards protecting tourists or others with limited knowledge of the rules applying to the taxi industry in NSW.
- ▼ That the unregulated booking fee applies only to pre-booked premium taxis. Fares for all taxis hired at a rank or hailed in the street (including premium taxis) are subject to the regulated maximum fares determined by the Minister.

IPART recommends trialling these arrangements for a period of at least 12 months. At the end of this period, IPART could review these arrangements and could recommend re-regulation of the booking fee if necessary. A monitoring regime would be required to review these arrangements. For example, networks would need to ensure that premium bookings are not included in the reporting of key performance indicators for standard services. IPART would work with the Ministry of Transport to ensure that an appropriate monitoring regime is implemented.

The fact that operators and drivers are currently choosing to provide premium services implies that the benefits of providing a premium service outweighs the higher costs, even in the absence of differentiated pricing. However, in IPART's view, regulatory arrangements should encourage innovation. There is no sound justification for discouraging drivers from forming mutually beneficial relationships with specific clients that are willing to pay for a higher quality of service. Deregulating the booking fee for premium taxis provides a legal framework for these practices.

IPART's considerations in relation to stakeholders' specific concerns about the impact of introducing a premium booking fee on the quality of service passengers using standard taxi services will receive, and the need to define premium services are outlined below.

9.4.1 Impact on quality of service

In relation to the impact on the quality of service standard taxi users receive, IPART notes that a premium booking fee does create an incentive to prioritise premium bookings. It also notes that it is reasonable for passengers that are willing to pay a higher price to receive a higher quality of service: reduced waiting time can be considered part of the higher quality service that those passengers receive. However, this is unlikely to substantially impact on the quality of the service provided to standard taxi users.

In relation to concerns that a premium booking fee might create an incentive for taxis to prioritise premium bookings over street hails, IPART notes that booked taxi trips make up only around 20 per cent of all urban trips. It is unlikely that all or even most of the passengers who make bookings would be willing to pay a sufficiently high premium booking fee to discourage taxis from accepting street hails. In fact, in the 2005 review, submissions to IPART suggested that a higher (regulated) premium booking fee might mean that four out of five luxury cab bookings are lost.⁵⁷

In addition, IPART notes that the minimum standards of services taxis must provide are regulated. Provided that these standards provide sufficient safeguards to ensure that a standard taxi service is available within a reasonable period of time for passengers who request a standard taxi service at the regulated fare, it should only be necessary to continue to regulate minimum standards for all taxis. The market can then be left to determine what constitutes a 'premium' service based on customers' willingness to pay for a non-standard taxi service. This places the onus on the service provider to 'sell' their services to passengers and should encourage competition between service providers.

Competition on the basis of quality is good for passengers and should raise overall standards above the minimum in the long run. Nevertheless, the standard of service for standard passengers should be monitored over the trial period. The Ministry of Transport has advised that network standards will be updated at 1 July of this year for the Sydney, Newcastle, Wollongong and Central Coast operating areas. The introduction of the revised network standards and compliance procedures provides an additional safeguard.

The network standards will require authorised networks to meet minimum performance standards for response times and reliability, as measured by the network key performance indicators, including:

- ▼ response times (the average pick-up time and the percentage of booked taxis arriving in less than 15 minutes, less than 30 minutes and less than 60 minutes)
- ▼ reliability (the percentage of bookings for which no cab was available).

⁵⁷ IPART, *Review of Fares for Taxis in NSW*, July 2005, p 10.

9.4.2 Defining premium services

Narrowly defining premium services also discourages innovative services from emerging, for which passengers may be willing to pay a higher price. For example, some passengers may be willing to pay a premium fee for a guaranteed fast response time. The definitions used in Victoria or Queensland are based on the type or cost of the vehicle. Neither takes into account factors that are likely to be more important to passengers, such as cleanliness, comfort, response times or driver standards.

In IPART's view, defining a premium service can be left to market participants. In practice, this would involve the networks offering non-standard services at a higher price and passengers deciding whether they are willing to pay extra for it. If a passenger that requests a premium service is not satisfied with the quality of service they receive they can, in future, use an alternative network or simply use the standard service. There is a strong incentive for premium service providers to differentiate themselves from the standard service. Indeed currently, networks offering premium services place strict standards on the quality of drivers and vehicles. These incentives will be even stronger if they are able to charge a higher booking fee, based on the quality of service.

10 | Wheelchair accessible taxis

In other public transport industries, the costs associated with complying with accessibility obligations for people with disabilities are generally borne by the industry or service provider in the first instance and can then be ultimately spread across all passengers through higher priced services. The current fare setting process prevents this from happening in the taxi industry, as the costs associated with providing wheelchair accessible taxis (WATs) are excluded from the TCI, which captures the costs of a typical taxi only. However, these costs are mitigated by a number of Government initiatives provided in relation to WATs (such as heavily discounted or free licences), the benefits of which are also excluded from the TCI (for example, fares are based on the licence costs of a standard taxi, not the heavily discounted WAT licence).

In December 2007 the Ministry of Transport introduced a six-month trial incentive payment to drivers of \$8.47 per passenger picked up. The trial incentive payment is currently being funded at no cost to passengers through a levy on operators, (the Taxi Advisory Committee fund).⁵⁸ This approach to funding is unlikely to be sustainable. As a result, if the current incentive payment is extended, alternative means of funding may need to be identified. The Government will need to decide what level of incentives is required to ensure appropriate standards of service for users of WATs, and how any incentives should be funded.

As part of this review, IPART considered whether it should recommend including any additional costs associated with WATs in the TCI (and thus in fares). In the Issues Paper, IPART sought stakeholder feedback on two options for funding WAT incentives, including:

- ▼ incorporating the annual estimated cost of providing incentive payments into the TCI
- ▼ increasing taxi fares by a defined amount (such as, an increase in the booking fee or flag-fall) for all passengers.

Under both approaches all passengers would pay higher fares, although the increase may be minimal when spread over all trips, which could be collected from the industry via an increase in the levy on all taxi operators and then transferred to those providing the WAT service.

⁵⁸ IPART, *2008 Review of Taxi Fares in NSW – Issues Paper*, February 2008, p 47.

The section below summarises IPART's draft decision on this issue. The subsequent sections discuss the analysis that underpins this decision, including IPART's consideration of stakeholder views.

10.1 IPART's draft decision

IPART's draft decision is not to recommend making an allowance for a WAT incentive payment at this stage. The trial incentive payment currently in place has not yet been evaluated and IPART may reconsider the introduction of fare funded incentive payment once the results of this trial are available.

10.2 Costs associated with WATs that are not already recovered

Currently, most of the incentives available in NSW are subsidies aimed at reducing the up-front costs associated with WATs. Some of these subsidies provide significant benefits (for example, heavily subsidised licences). There are also some additional measures to mitigate the more direct cost built in to the current structure through allowing drivers to charge the waiting time rate for the time spent assisting passengers into the taxi. The level of the waiting time rate is more than double the hourly driver labour cost included in the TCI and as a result is likely to provide sufficient compensation for drivers for both loading and unloading passengers.

The PwC survey did not provide robust enough information to allow IPART to estimate WAT costs. This is partly because WATs make up a small proportion of total taxis in NSW (around 10 per cent), so the number of respondents providing data on WAT costs was not significant.

The ATDA submitted that WATs were up to twice as expensive to operate as a standard taxi.⁵⁹ However, the Taxi Council noted that WATs were able to stay on the road for twice as long as standard taxis. Both these stakeholders also claimed that additional costs to drivers constituted reduced numbers of street hails, increased dead running time to pick up passengers and higher fuel costs.⁶⁰ However, the Taxi Council noted that the issues are complicated and it is difficult to assess what level of compensation is needed.

The data provided in submissions from the taxi industry suggested that WATs in NSW tend to earn less revenue than standard taxis, but the Taxi Council noted that this was not necessarily based on higher costs, but often resulted from other obligations such as regulated changeover times. The Ministry of Transport has advised that it is currently reviewing the changeover conditions for WATs, which were originally established to maintain availability during the afternoon shift change period, to improve rates of double-shifting WATs for improved availability at all times.

⁵⁹ ATDA submission, March 2008, p 15.

⁶⁰ ATDA submission, March 2008, p 15; NSWTC submission, March 2008, pp 30-31.

10.3 Level of service for WATs

From December 2007, the Commonwealth Disability Standards for Accessible Public Transport require response times for WATs to equal those of standard taxi services. Service standard statistics for urban networks up to December 2007 showed that response times for bookings made via the Zero200 network were 9.24 minutes, compared with 8.19 minutes on all other networks.⁶¹ Overall in 2007, the Zero200 network showed an improvement in KPIs compared to 2006. These improvements are borne out by the fact that the level of service provided by WATs was not the key concern raised by submissions as it has been in previous years.

However, it is clear that some passengers are still not receiving an adequate level of service. For example, at the public hearing David Cunningham stated that:

...my experience has been that the average waiting time for a WAT for me has been around four hours. I am constantly missing from my trips, from my social occasions, or whatever one calls it, because of the transportation issue.⁶²

Submissions indicated that service standards depend heavily on geographical area. For example, areas with a high proportion of WATs compared with other taxis do not experience problems with service levels, whereas passengers in some other areas have a great deal of difficulty. To some extent, those with poor levels of service have responded by making private bookings directly with drivers.⁶³

10.4 The need for additional incentives

The available information on cost and service levels suggests that additional incentives may not be necessary. Service levels have certainly improved for WATs over the past 12 months, and this may have resulted in part from the trial incentive payment. Unfortunately seasonal variability in performance data makes a direct comparison difficult as only one full month of data with the incentive payment in place is available at this stage.

In its submission the ATDA argued that there should be a WAT incentive payment valued at \$25 because drivers not only had to be compensated for higher costs, but also receive an incentive to take WATs bookings. The Taxi Council supported an incentive payment in principle but submitted that the appropriate value cannot be determined until after the results of the current trial are known.⁶⁴

There was not strong support from WAT passengers for the introduction of a permanent incentive payment for drivers funded through fares. In fact, a number of

⁶¹ Information provided by the Ministry of Transport, March 2008.

⁶² Mr David Cunningham, IPART Public Hearing, 11 March 2008, pp 34-35.

⁶³ Mr David Cunningham, IPART Public Hearing, 11 March 2008, pp 34-35; PDCN, IPART Public Hearing, pp 32-33.

⁶⁴ NSWTC submission, March 2008, p 33.

stakeholders did not consider that driver incentive payments are appropriate at all, and particularly if it would raise the general level of fares.

Passengers suggested that demand for WATs is highly price sensitive. Faced with high fares, many people in wheelchairs are forced to reduce the number of taxi trips they make. The Physical Disability Council of NSW (PDCN) suggested that a driver incentive funded through higher fares would reduce the uptake of WATs by the industry because of the lower demand for WAT services.

Given the limited level of stakeholder support for an incentive payment subsidised through fares, and the view put to IPART by stakeholders that poor WAT response times tend to be very localised, IPART does not propose to recommend making an allowance for a WAT incentive payment in its fare recommendations at this stage. Given that the results of the incentive payment trial are not yet available and the full impact of the trial on service outcomes will not be available until next year's fare review, IPART may reconsider the introduction of fare funded incentive payment once the results of the trial are available.

10.5 Other issues related to WATs and transport for passengers with physical disabilities

While the majority of stakeholders do not support additional incentive payments, they raised a number of other concerns that IPART. While these concerns are generally outside the scope of IPART's review, IPART has given each issue some consideration. Specifically, IPART has considered whether it can address concerns raised regarding:

- ▼ the impact of uncertainty regarding renewal of WAT licences on the uptake of WAT licences
- ▼ the subsidy level of the Taxi Transport Subsidy Scheme (TTSS)
- ▼ the potential for concessional or zero booking fees for WATs.

10.5.1 Issues raised in relation to WAT licences

The PDCN stressed the importance of raising the proportion of WATs to standard taxis, and argued for a universally accessible taxi fleet.⁶⁵ Data provided by the Ministry of Transport showed that there was a 28 per cent increase in the number of WAT taxis operating on the Zero200 network from 2006 to 2007⁶⁶ and a 20 per cent increase in the number of WATs across NSW. The proportion of WATs as a percentage of the total taxi fleet in Sydney, Newcastle and Wollongong is now over 8 per cent⁶⁷ and has increased to 10 per cent of the total taxi fleet in NSW.

⁶⁵ Physical Disability Council of NSW (PDCN) submission, March 2008, p 8.

⁶⁶ Information provided by the Ministry of Transport, March 2008.

⁶⁷ Information provided by the Ministry of Transport, March 2008.

Submissions from industry participants argued that the uptake of WAT licences is limited by the current approach to issuing and enforcement. Currently the Ministry of Transport issues WAT licences on a one-year basis so that compliance can be monitored and licences can be revoked if the Ministry is not satisfied that priority is being given to WATs bookings.

Submissions argued that greater clarity regarding the process and criteria that will be used to assess compliance with the regulatory obligations on WAT licences is needed. The Taxi Council put the view that operators and drivers are uncertain about whether they can demonstrate that they have met the regulatory obligations to prioritise passengers in wheelchairs.⁶⁸ Both the Taxi Council and ATDA submitted that the current arrangements are a deterrent for prospective WAT licensees, who must invest in expensive wheelchair accessible vehicles and undergo appropriate driver training up-front.⁶⁹ However, it is acknowledged that in order to support the services for which WATs are licensed at significant discounts in licence fees, that there must be an effective enforcement and compliance regime to ensure services are in fact delivered.

This issue is outside the scope of IPART's terms of reference for this review and are a matter of Government policy, so it has not been able to address it. However, as noted in Chapter 2, IPART considers that it may be timely to undertake a comprehensive review of the industry structure and regulations imposed to fully address these types of issues.

10.5.2 The Taxi Transport Subsidy Scheme (TTSS)

The fare relief scheme in place in NSW, is funded by the NSW Government and known as the Taxi Transport Subsidy Scheme (TTSS). The TTSS is administered by the Ministry of Transport and provides eligible participants who have a qualifying severe and permanent disability with a 50 per cent subsidy for the metered fare, up to a maximum value of \$30 per trip. There are no limits on the number or purpose of trips undertaken with this subsidy.

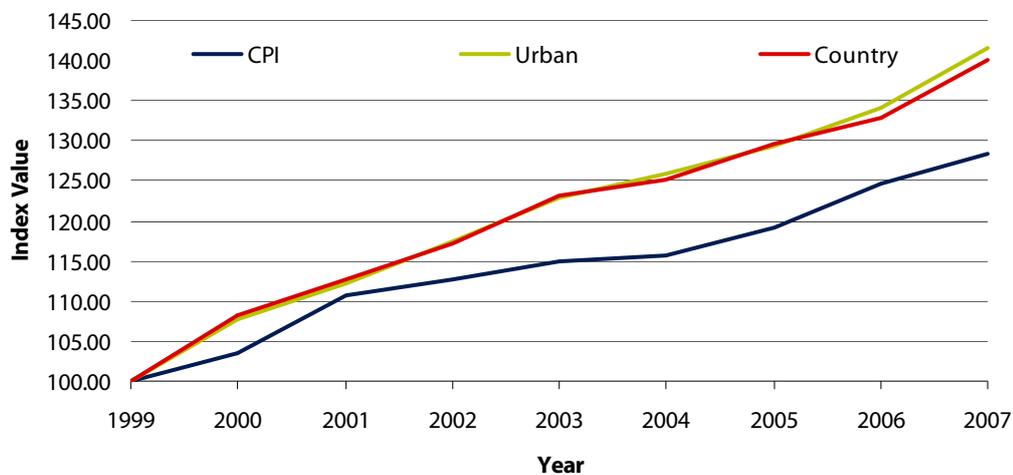
Submissions from WATs users strongly urged IPART to consider the impact of fare increases in light of the fact that the TTSS has not been reviewed for a number of years and to recommend to Government that the TTSS rate be increased.⁷⁰

The level of the TTSS subsidy has not changed since 1999, when the cap was increased from \$25 to \$30. Over this time, taxi fares in NSW have increased by slightly more than 40 per cent in both urban and country areas. The increase in the CPI has been around 28 per cent over the same period (see Figure 10.1 below).

⁶⁸ NSWTC submission, March 2008, pp 29-30.

⁶⁹ NSWTC submission March 2008, p 29; ATDA submission, March 2008, p 16.

⁷⁰ PDCN submission, March 2008, pp 8-9; Mr Bob Douglas submission, February 2008, p 1; Mr Greg Killeen submission, March 2008, p 2; Mr David Cunningham submission, February 2008, p 1.

Figure 10.1 Index of fare increases for taxis since 1999

Data source: IPART Reports and ABS Data.

There was a strong message in submissions that WATs passengers, who tend to be on fixed incomes, are struggling as a result of the large real increase in taxi fares.⁷¹ The PDCN submitted that the average trip for people in wheelchairs is longer than for able bodied passengers, implying higher fares.⁷² Submissions also noted that a lack of access to other public transport means that mobility impaired passengers have limited alternatives.⁷³

There was also concern in submissions that increases to the cap on the subsidy alone may not address the real concerns of passengers. This attitude was reflected by stakeholders in statements made at the IPART public hearing.⁷⁴ Stakeholders suggested that consideration should be given to increasing the percentage rebate offered by the TTSS from the current 50 per cent⁷⁵ to ensure that the TTSS adequately takes into account the impact of fare increases of the last 10 years. Stakeholders also argued that a higher subsidy would be likely to encourage passengers in wheelchairs to make more taxi trips, and that the higher utilisation of WATs services may also have a flow-on effect on service levels by encouraging greater up-take of WAT licences.⁷⁶

The TTSS subsidy in NSW is comparable to similar subsidies in other states, in particular to Queensland and Victoria, in terms of both the level of the cap and the percentage of fare rebated to passengers. However, as noted in Chapter 7, NSW taxi

⁷¹ Mr Bob Douglas submission, February 2008, p 1; PDCN submission, March 2008, pp 8-9; NCOSS submission, March 2008, p 1.

⁷² PDCN, IPART Public Hearing, 11 March 2008, pp 31-33.

⁷³ PDCN submission, March 2008, p 6; PDCN, IPART Public Hearing, 11 March 2008, pp 31-33; Mr Greg Killeen, IPART Public Hearing, 11 March 2008, pp 36-37.

⁷⁴ Mr Greg Killeen, IPART Public Hearing, 11 March 2008, pp 39-40.

⁷⁵ PDCN submission, March 2008, pp 8-9; Mr Greg Killeen submission, March 2008, p 2; Mr Greg Killeen, IPART Public Hearing, 11 March 2008, pp 37-38.

⁷⁶ PDCN, IPART Public Hearing, 11 March 2008, pp 31-33.

fares do tend to be higher than those in other states. Table 10.1 sets out the assistance measures in other states.

Table 10.1 Comparison of assistance measures across Australia

	Percentage of fare	Level of cap
New South Wales	50%	\$30
Tasmania	60%	\$30
Victoria	50%	\$30
Queensland	50%	\$20

Source: IPART, *2008 Review of Taxi Fares in NSW – Issues Paper*, February 2008, pp 32-42.

While the level of the TTSS is a matter for Government and is outside IPART's terms of reference, the issues raised in submissions are important. IPART has been advised that the Ministry of Transport is currently reviewing the TTSS and the administrative arrangements surrounding it. IPART hopes that the information provided above will assist the Ministry of Transport with its review.

10.5.3 Concessional or zero booking fees for WATs

Since WATs passengers find it difficult to hail a WAT or any taxi, they are subjected to a booking fee each time they wish to travel.⁷⁷ Individual submissions highlighted concerns that the effects of paying for tolls, booking fees and surcharges on credit use were tough on fixed income earners.⁷⁸

Submissions proposed an alternative option to making travel more affordable for WATs passengers – eliminating tolls, surcharges and booking fees altogether for WATs passengers.⁷⁹ To cover the costs of providing these services from fares, the booking fee for non-WAT passengers would need to increase.

IPART considers that removing the WAT booking fee and raising the non-WAT booking fee is likely to lower the incentive to WAT drivers to pick up passengers in wheelchairs compared with other passengers. This would be an unsatisfactory outcome. Transferring the WAT-related booking fee to drivers/operators undertaking WAT work would also have administrative costs as there is currently no system set up to do this. For these reasons, IPART does not support providing passengers in wheelchairs with an exemption from tolls, booking fees or surcharges as a means of alleviating the impact of fare increases.

⁷⁷ PDCN submission, March 2008, p 6.

⁷⁸ PDCN submission, March 2008, p 6; Mr David Cunningham, IPART Public Hearing, 11 March 2008, pp 34-35.

⁷⁹ Mr David Cunningham, IPART Public Hearing, 11 March 2008, pp 34-35.



Appendices

A Terms of Reference

I, Bob Carr, Premier, approve, under Section 9(1)(b) of the Independent Pricing and Regulatory Tribunal Act 1992, the Tribunal entering into an arrangement with the Minister for Transport to investigate and report on the prices for taxi services regulated under the Passenger Transport Act 1990. A final report is to be provided to the Minister for Transport by June each year.

In conducting this investigation, the Tribunal should consider:

- i) the cost of providing the services concerned;
- ii) the protection of consumers from abuses of monopoly power in terms prices, pricing policies and standards of service;
- iii) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers;
- iv) the impact on pricing policies of borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant assets;
- v) the need to maintain ecologically sustainable development;
- vi) the social impact of the recommendations;
- vii) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise and any suggested or actual changes to those standards as notified to the Tribunal by the Minister for Transport); and
- viii) the effect of any pricing recommendation on the level of Government funding.

In conducting the investigation the Tribunal may consult with the Taxi Council and the relevant unions by arrangement with the Ministry of Transport.

B Productivity growth in the economy

In previous fare reviews, IPART has looked at productivity trends in the broader economy and then made a conservative estimate of productivity growth achievable in the taxi industry. A range of productivity measures published by the ABS are shown in Table B.1.

Table B.1 Annual measure of productivity growth

	2002/03	2003/04	2004/05	2005/06	2006/07	5 year avg
	%	%	%	%	%	%
Gross value added per hour worked						
▼ Transport & storage	6.2	-2.1	2.5	2.0	4.1	2.5
▼ All industries	0.5	2.1	0.5	1.2	0.7	1.0
Market sector productivity						
▼ Labour productivity per hour worked	1.7	3.0	0.3	2.5	0.4	1.6
▼ Labour productivity per hour worked (quality adjusted)	1.5	3.0	0.1	2.5	0.2	1.5
▼ Capital productivity	-0.1	-0.1	-1.5	-2.6	-1.9	-1.2
▼ Multifactor productivity per hour worked	0.9	1.7	-0.5	0.2	-0.6	0.3
▼ Multifactor productivity per hour worked (quality adjusted)	0.8	1.7	-0.6	0.2	-0.7	0.3

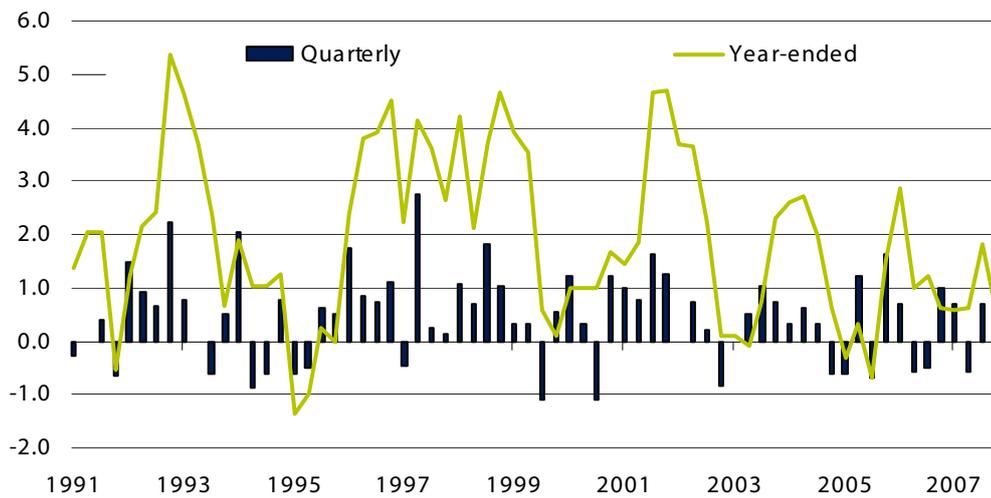
Source: Australian Bureau of Statistics, Catalogue 5204.0, Australian System of National Accounts 2006-07.

Growth in labour productivity appears to have slowed in 2006/07. Growth in gross value-added per hour worked eased to 0.7 per cent, while labour productivity in the market sector slowed to 0.4 per cent. However against this trend, gross value added per hour worked in the transport industry increased to 4.1 per cent in 2006/07, well above the five year average.

Quarterly productivity measures (shown in Figure B.1) also point to slowing productivity growth at the aggregate level. GDP per hour worked fell by 0.3 per cent in the December quarter and was only 0.5 per cent higher over the year. In the market sector, GDP per hour worked also fell by 0.3 per cent in the quarter and was flat over the year. In the year average terms, GDP per hour worked increased by

0.7 per cent in 2007, compared with 1.2 per cent in 2006. In the market sector, GDP per hour worked increased by 0.6 per cent in 2007, compared with 2.5 per cent in 2006.⁸⁰

Figure B.1 GDP per hour worked, percentage change



Data source: ABS Catalogue 5206.0, Table 1.

⁸⁰ Australian Bureau of Statistics, *Australian National Accounts: National Income, expenditure and product*, 5206.0, December 2007, pp 20-21.

C Service standards and KPIs

The information below is based on the latest available data: 12 months to January 2008 for Customer Feedback and 12 months to December 2007 for the Key Performance Indicators (KPIs). It indicates a mixed result in overall service and quality standards over the period but a significant improvement in the performance of wheelchair accessible taxis.

C.1 Customer feedback

Complaints and compliments regarding taxi services are recorded by the Ministry of Transport's Customer Feedback Management System (CFMS). For the year to January 2008, CFMS data showed an overall decrease in complaints and a decrease in compliments.

Both the total number of total complaints and the number of compliments were lower compared with the year to January 2007. However, despite the decrease in total complaints overall, the number of serious complaints against drivers increased as did the most common complaints.

Tables C.1 and C.2 show the changes in complaints and compliments received in more detail.

Table C.1 Summary of complaints and compliments compared to the previous year

	Year to Jan 2007	Year to Jan 2008	Change
Complaints	7,640	7,429	-2.76%
Driver	5,440	5,233	-3.81%
▼ Serious	127	156	+22.83%
▼ Other	5,313	5,077	-4.44%
Fares	1,124	1,246	+10.85%
Network	822	734	-10.71%
Taxi	254	216	-14.96%
Compliments	575	508	-11.65%

Note: Fares complaints are complaints concerning fares charged, network complaints are complaints concerning radio bookings and pickups, taxi complaints concern the state of the vehicle.

Serious complaints consist of assault, driving under the influence of drugs and alcohol, improper use of an authority card, operate or drive without authority, refusal of a guide dog, sexual harassment and TTSS fraud.

Source: Ministry of Transport.

Table C.2 Change in the most common complaints compared with the previous year (year to January)

Complaint	2007	2008	Change
Demanding more/other than prescribed fare	951	1,069	+12.41%
Driving in an unsafe manner	810	814	+0.49%
Rude to customer – incivility or impropriety	780	692	-11.28%
Refusal of a fare/hire when “for hire”	689	675	-2.03%
Failure to provide reasonable assistance to customer	476	583	+22.48%

Source: Ministry of Transport.

C.2 Key performance indicators

Currently networks are required to report on their performance against a list of KPIs. The KPIs relate to operations, telephone answering standards, delivery standards and customer services.

Networks are required to maintain performance standards to the following level:

- ▼ 90 per cent of calls are to be connected to the booking service immediately and of this 90 per cent, 70 per cent are to be answered within one minute and 90 per cent are to be answered within two minutes
- ▼ in 85 per cent of cases a taxi is to arrive within 15 minutes of booking being made, in 98 per cent of cases a taxi is to arrive within 30 minutes of booking being made and in 100 per cent of cases a taxi is to arrive within 60 minutes of booking being made.

In calendar year 2007, 93.3 per cent of phone calls were answered within one minute and 97.5 per cent were answered within two minutes. Both results are within the above requirements but represent a slight decline in performance from the 2006 calendar year.

In the same period, 91.6 per cent of taxis arrived within 15 minutes of a booking being made, 99.0 per cent arrived within 30 minutes and 99.98 per cent arrived within 60 minutes. These results represent a slight decline compared with the 2006 results.

Table C.3 shows the reporting against KPIs for 2007 compared with the reported figures for calendar year 2006.

Table C.3 Comparison of KPIs for 2006 and 2007

KPI	2006	2007	Change
KPI 1: Number of bookings required	13,174,475	13,302,307	+1.0%
KPI 2: Number of rejections ^a	32,356,287	34,843,470	+7.7%
KPI 3: Number of jobs accepted by taxi drivers	10,685,672	10,722,611	+0.3%
KPI 4: Average pick up time (minutes)	7.31	8.19	+12.1%
KPI 5: Total number of M3's (passenger no shows)	1,099,362	1,172,108	+6.6%
KPI 6: Average acceptance time (minutes)	2.87	2.80	-2.3%
KPI 7: Number of ring-backs	622,555	668,106	+7.3%
KPI 8: Number of advance bookings	7,350	39,420	+436.3%
KPI 9: Number of taxis operating (monthly average)	4,972	5,093	+2.4%
KPI 10: Number of phone calls received	12,993,746	13,191,871	+1.5%
KPI 11: Number of calls answered within one minute	12,330,810	12,291,766	-0.3%
KPI 11: No. of calls answered in one to two minutes	453,414	557,854	+23.0%
KPI 11: Number of calls answered after two minutes	209,522	329,179	+57.1%
KPI 11: Average answering time (seconds)	16.84	16.79	-0.3%
KPI 12: Average no. of radio jobs completed per taxi	1,891	1,841	-2.7%
KPI 13: Pick up in less than 15 minutes	8,690,146	8,589,479	-1.2%
KPI 13: Pick up between 15 and 30 minutes	640,732	693,977	+8.3%
KPI 13: Pick up between 30 and 60 minutes	73,611	90,186	+22.5%
KPI 13: Pick up in a time greater than 60 minutes	1,148	1,501	+30.7%
KPI 14: No. of bookings offloaded to other networks	2,045,676	2,210,892	+8.1%
KPI 14: Number of bookings offloaded and returned	170,703	192,618	+12.8%
KPI 14: Number of bookings successfully offloaded	1,878,804	2,018,635	+7.4%
KPI 15: No. of bookings where no cab was available	189,670	222,910	+17.5%
KPI 16: Average number of taxis signed on at 9 am	3,347	3,280	-2.0%
KPI 16: Average number of taxis signed on at 9 pm	3,472	3,454	-0.5%

^a Number of rejections represents the number of bookings not accepted by the driver allocated the booking – network systems continue to allocate bookings to drivers until a driver accepts the booking.

Note: KPI 4,6,11 and 16 show the mean of the monthly average results.

Source: Ministry of Transport.

C.3 Zero200 key performance indicators

The Zero200 network is the booking network for wheelchair accessible taxis (WATs). The Ministry of Transport maintains KPIs for WATs separately to those of other networks. In comparison to 2006, the Zero200 network showed a significant improvement in KPIs. Table C.4 shows the reporting against KPIs for 2007 for the Zero200 network compared with the reported figures for calendar year 2006.

Table C.4 Zero200 key performance indicators

KPI	2006	2007	Change
KPI 1: Number of bookings required	102,167	119,085	+16.6%
KPI 2: Number of rejections ^a	78,717	79,237	+0.7%
KPI 3: Number of jobs accepted by taxi drivers	90,222	105,145	+16.5%
KPI 4: Average pick up time (minutes)	11.34	9.24	-18.5%
KPI 5: Total number of M3's (passenger no shows)	800	909	+13.6%
KPI 6: Average acceptance time (minutes)	6.84	4.14	-39.5%
KPI 7: Number of ringbacks	2,747	1,489	-45.8%
KPI 8: Number of advance bookings	0	0	0
KPI 9: No. of taxis operating (monthly average)	327	417	+27.7%
KPI 10: Number of phone calls received	94,787	103,879	+9.6%
KPI 11: No. of calls answered within one minute	83,405	92,516	+10.9%
KPI 11: No. of calls answered in one to two minutes	6,547	7,182	+9.7%
KPI 11: No. of calls answered after two minutes	4,835	4,181	-13.5%
KPI 11: Average answering time (seconds)	32.47	29.42	-9.4%
KPI 12: Average no. of radio jobs completed per taxi	281	249	-11.4%
KPI 13: Pick up in less than 15 minutes	63,246	79,752	+26.1%
KPI 13: Pick up between 15 and 30 minutes	18,277	18,631	+1.9%
KPI 13: Pick up between 30 and 60 minutes	7,068	5,240	-25.9%
KPI 13: Pick up in a time greater than 60 minutes	831	613	-26.2%
KPI 15: No. of bookings where no cab was available	0	0	0
KPI 16: Average number of taxis signed on at 8 am	119	157	+31.9%
KPI 16: Average number of taxis signed on at 4 pm	191	267	+40.2%

^a Number of rejections represents the number of bookings not accepted by the driver allocated the booking – network systems continue to allocate bookings to drivers until a driver accepts the booking.

Note: KPI 4,6,11 and 16 show the mean of the monthly average results.

Source: Ministry of Transport.

D Monthly changes in LPG prices

Table D.1 Monthly fuel changes in Sydney Metropolitan region – 2003-2008

Month	LPG Cost	Change
January-2003	50.8	
February-2003	51.1	0.50%
March-2003	51.7	1.30%
April-2003	49.4	-4.49%
May-2003	42.1	-14.78%
June-2003	36.2	-14.01%
July-2003	36.8	1.66%
August-2003	37.7	2.45%
September-2003	38.6	2.39%
October-2003	36.8	-4.66%
November-2003	38.2	3.80%
December-2003	38.9	1.83%
January-2004	39.1	0.51%
February-2004	38.8	-0.77%
March-2004	38.9	0.26%
April-2004	37.2	-4.37%
May-2004	38.8	4.30%
June-2004	39.4	1.55%
July-2004	40.9	3.81%
August-2004	41.5	1.47%
September-2004	45.2	8.92%
October-2004	47.6	5.31%
November-2004	51.0	7.14%
December-2004	49.0	-3.92%
January-2005	42.1	-14.08%
February-2005	42.5	0.95%
March-2005	41.5	-2.35%
April-2005	42.8	3.13%
May-2005	43.8	2.34%
June-2005	43.4	-0.91%
July-2005	42.0	-3.23%

Month	LPG Cost	Change
August-2005	43.5	3.57%
September-2005	44.1	1.38%
October-2005	51.2	16.10%
November-2005	54.2	5.86%
December-2005	55.2	1.85%
January-2006	58.7	6.34%
February-2006	61.6	4.94%
March-2006	57.5	-6.66%
April-2006	51.3	-10.78%
May-2006	51.0	-0.58%
June-2006	51.5	0.98%
July-2006	53.2	3.30%
August-2006	56.6	6.39%
September-2006	57.1	0.88%
October-2006	53.6	-6.13%
November-2006	49.8	-7.09%
December-2006	50.3	1.00%
January-2007	54.4	8.15%
February-2007	51.9	-4.60%
March-2007	52.2	0.58%
April-2007	51.9	-0.57%
May-2007	53.5	3.08%
June-2007	54.2	1.31%
July-2007	53.7	-0.92%
August-2007	53.6	-0.19%
September-2007	53.3	-0.56%
October-2007	57.0	6.94%
November-2007	60.5	6.14%
December-2007	67.5	11.57%
January-2008	72.3	7.11%
February-2008	69.2	-4.29%
March-2008	65.5	-5.38%

Source: Fueltrac Data.

Table D.2 Monthly fuel changes in the rest of NSW 2005-2008

Month	LPG Cost	Change
January-2005	53.7	
February-2005	53.2	-0.80%
March-2005	52.2	-1.87%
April-2005	53.0	1.37%
May-2005	53.2	0.36%
June-2005	53.1	-0.03%
July-2005	53.2	0.19%
August-2005	52.9	-0.63%
September-2005	53.8	1.67%
October-2005	55.5	3.17%
November-2005	60.0	8.14%
December-2005	60.8	1.32%
January-2006	62.6	3.01%
February-2006	66.1	5.58%
March-2006	66.2	0.13%
April-2006	63.9	-3.56%
May-2006	63.0	-1.33%
June-2006	62.7	-0.57%
July-2006	62.6	-0.08%
August-2006	63.7	1.70%
September-2006	63.8	0.17%
October-2006	63.0	-1.27%
November-2006	61.7	-2.08%
December-2006	60.8	-1.32%
January-2007	62.2	2.30%
February-2007	62.3	0.11%
March-2007	61.9	-0.61%
April-2007	61.5	-0.67%
May-2007	61.6	0.15%
June-2007	62.1	0.81%
July-2007	62.0	-0.20%
August-2007	61.6	-0.59%
September-2007	61.7	0.16%
October-2007	62.8	1.82%
November-2007	65.5	4.18%
December-2007	72.2	10.27%
January-2008	77.1	6.76%
February-2008	76.8	-0.34%
March-2008	76.2	-0.79%

Source: Fueltrac data.